

★ STOCK MARKET LABORING ★

JUN 23 1945

SOCIOLOGY

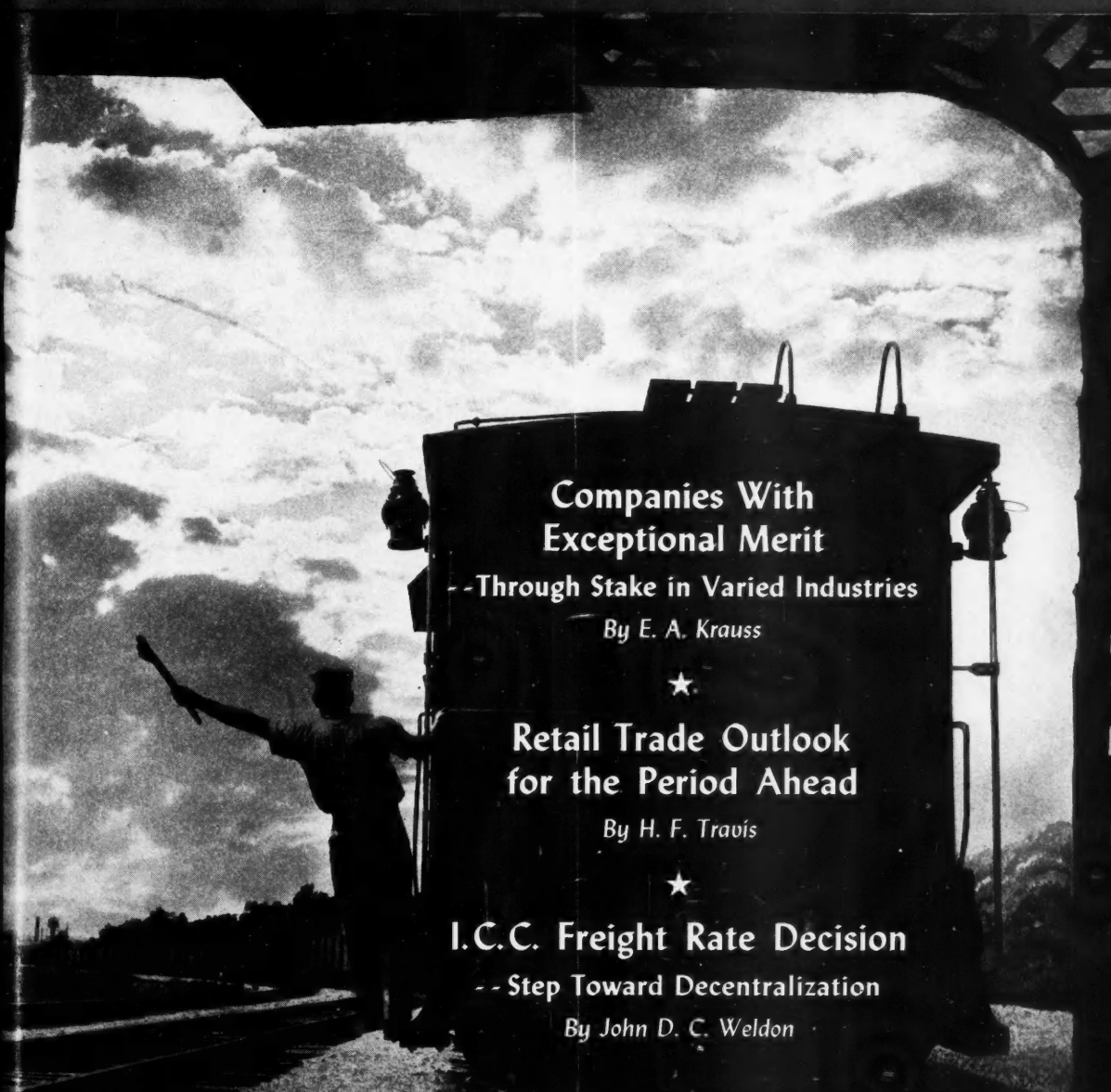
LOS ANGELES JUN 23 1945

The MAGAZINE *of* WALL STREET

and BUSINESS ANALYST

JUNE 23, 1945

50 CENTS



Companies With Exceptional Merit

-- Through Stake in Varied Industries

By E. A. Krauss



Retail Trade Outlook for the Period Ahead

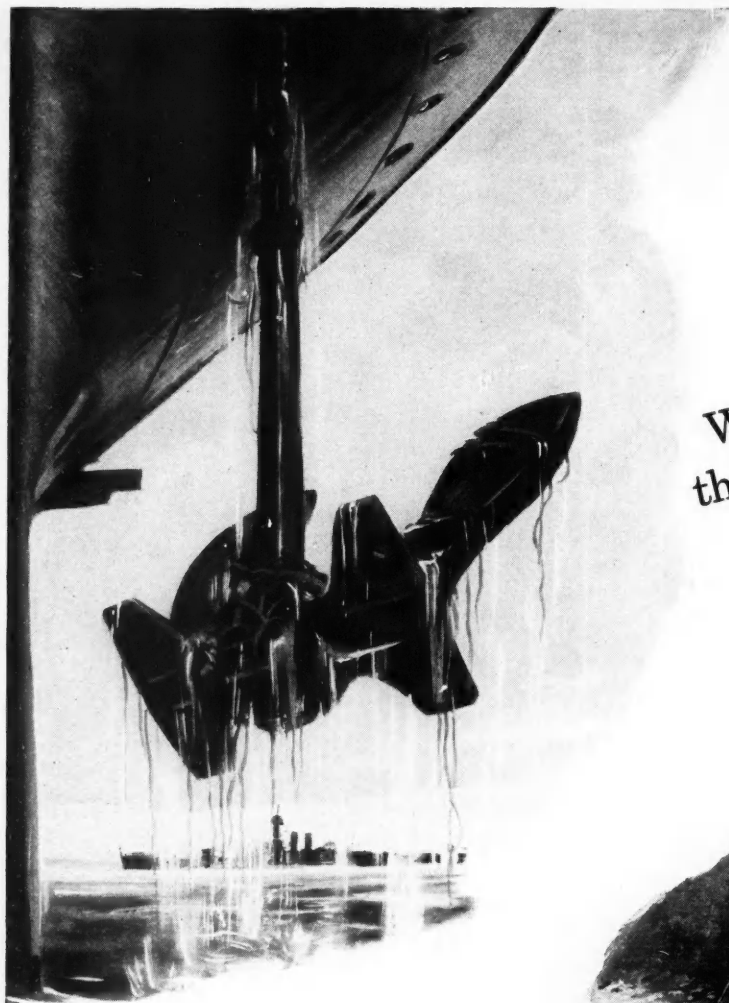
By H. F. Travis



I.C.C. Freight Rate Decision

-- Step Toward Decentralization

By John D. C. Weldon



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International MINERALS & CHEMICAL Corporation

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Dividends were declared by the Board of Directors on May 28, 1945, as follows:

4% Cumulative Preferred Stock Regular Quarterly Dividend of One Dollar (\$1.00) per share
\$5.00 Par Value Common Stock Fifty Cents (50c) per share
Both dividends are payable June 30, 1945 to stockholders of record at the close of business June 15, 1945. Checks will be mailed.

Robert P. Resch,
Vice President and Treasurer

MINING AND MANUFACTURING
Phosphate, Potash, Fertilizer, Chemicals

UNITED STATES FOIL COMPANY

REYNOLDS METALS BUILDING
RICHMOND 19, VIRGINIA

PREFERRED DIVIDEND

A dividend of one dollar seventy-five cents (\$1.75) per share on the outstanding Preferred Stock of this corporation has been declared for the quarter ending June 30, 1945, payable July 2, 1945, to the holders of such shares of record at the close of business June 15, 1945. The transfer books will not be closed. Checks will be mailed by Bank of the Manhattan Company.

PAUL R. CONWAY, Assistant Secretary
Dated, May 28, 1945



COLUMBIA GAS & ELECTRIC CORPORATION

The Board of Directors has declared this day the following dividends:

Cumulative 6% Preferred Stock, Series A
No. 75, quarterly, \$1.50 per share

Cumulative Preferred Stock, 5% Series
No. 65, quarterly, \$1.25 per share

5% Cumulative Preference Stock
No. 54, quarterly, \$1.25 per share

payable on August 15, 1945, to holders of record at close of business July 20, 1945.

DALE PARKER
June 7, 1945 Secretary

LOEW'S INCORPORATED "THEATRES EVERYWHERE"

June 7, 1945

THE Board of Directors on June 6th, 1945 declared a quarterly dividend of 37½¢ per share on the outstanding Common Stock of the Company, payable on the 30th day of June, 1945 to stockholders of record at the close of business on the 19th day of June, 1945. Checks will be mailed.

DAVID BERNSTEIN,
Vice President & Treasurer

PACIFIC GAS AND ELECTRIC COMPANY

SAN FRANCISCO, CALIFORNIA

SUMMARY OF 1944 OPERATIONS

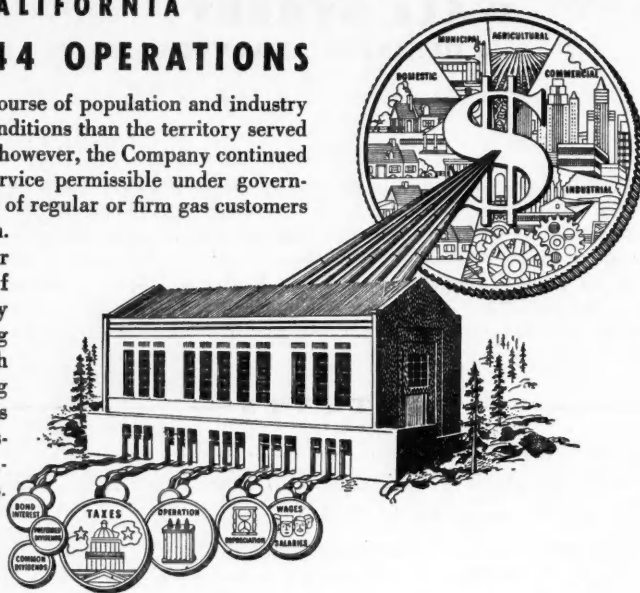
In few areas of the country has the course of population and industry been more vitally affected by war conditions than the territory served by this Company. Throughout 1944, however, the Company continued to meet all demands for electric service permissible under governmental regulations. All requirements of regular or firm gas customers were also supplied without reservation.

With the completion during the year of Pit Plant No. 5, with a capacity of 214,000 horsepower, the Company now operates 65 electric generating plants—52 hydro and 13 steam—with a total installed capacity exceeding 2,300,000 horsepower. Gas service is supplied through an extensive transmission and distribution system, including almost 9,500 miles of mains.

In 1944 the Company delivered to its customers more than seven and one-half billion kilowatt-hours of electric energy and one hundred and twenty-five billion cubic feet of gas.

At the close of the year there were 1,818,250 meters in service, electricity being supplied to 1,039,427 customers, gas to 765,497 customers and water or steam service to 13,326 customers.

In the past five years sales of electricity increased 71% and sales of gas 79%, while the average unit selling price of both electricity and gas declined—electricity 19% and gas 20%.



SOURCES OF GROSS REVENUE

1944

Electric Department.....	\$107,602,690
Gas Department.....	43,304,999
Water Department.....	522,742
Steam Sales Department.....	342,805
Miscellaneous Income.....	318,056
Total Gross Revenue.....	\$152,091,292

DISTRIBUTION OF STOCK OWNERSHIP

DECEMBER 31, 1944

Men Stockholders.....	36,043
Women Stockholders.....	52,080
Joint Tenants.....	24,374
Trust Estates.....	5,460
Corporations, Partnerships, Insurance Companies, Banks and Other Institutions.....	3,118
Total Stockholders.....	121,075

SUMMARY OF CONSOLIDATED EARNINGS STATEMENT

	1944	1943
Gross Revenue.....	\$152,091,292	\$138,981,356
Maintenance, Operating Expenses, Taxes (except Federal Taxes on Income) and Provisions for Depreciation and Other Reserves.....	87,441,842	83,178,865
Gross Income.....	64,649,450	55,802,491
Bond Interest, Discount and Other Income Deductions.....	12,462,932	10,810,407
Net Income before Provision for Federal Taxes on Income.....	52,186,518	44,992,084
Provision for Federal Taxes on Income.....	*30,149,179	22,645,080
Net Income to Surplus.....	22,037,339	22,347,004
Dividends on Preferred Stock.....	8,409,851	8,409,820
Dividends on Common Stock.....	12,523,898	12,523,808
Balance.....	\$ 1,103,590	\$ 1,413,376
Earnings per Share of Common Stock.....	\$2.18	\$2.23
Dividends Paid per Share of Common Stock.....	2.00	2.00

*Stated on the basis of current operations, without giving effect to non-recurring tax savings incident to refunding operations.

Post War

The Company recognizes that efficient and successful operation requires forward building. We have that ever in mind, and expect to aid in the continued development of Northern and Central California by encouraging new industries to locate in the territory served, by cooperating with existing enterprises, and by aiding merchants and manufacturers in the solution of reconversion problems. Comprehensive studies are already under way to determine the character and extent of future markets for our services, the physical changes in our properties which will be required, and the opportunities for further improving our service to the public.

James E. Beckett
PRESIDENT

Copies of the Company's 1944 annual report may be secured on application to E. J. Beckett, Treasurer, 245 Market Street, San Francisco 6, Calif.



The Trend of Events

ANTI-SPECULATION MOVES . . . The long-impending program of the Office of Economic Stabilization to discourage speculation in securities and real estate, now being completed, contains two basic proposals. The first would extend the minimum period for establishing long-term capital gains from six months to three years but existing rates of taxation on such gains would be retained. Also, the longer holding period would apply only to commitments after a specified date.

The second proposal is much less significant. It would increase margin requirements on securities purchases from currently 50% to 60% or 75% with the understanding that they would be boosted later up to 100% if prices continue to advance unduly. The idea here apparently is to hike margin requirements by intermediate steps in order to observe the effects of each increase. A third proposal, confined real estate transactions, would call for minimum down payments of 35% of the sales price.

It is always possible that final drafts of the program may be considerably altered and that objections raised may delay transmission of the recommendations to the White House, now thought likely within ten days or so. But at this writing, the foregoing seems to constitute the essence of official plans.

Raising margin requirements is of course a simple matter under the statutory authority vested in

the Federal Reserve Board; it could be done over night. But not so the lengthening of the holding period for long-term capital gains. That would require legislative action, and it now appears uncertain whether Congress would favor such drastic extension. Still, submitting the proposal to the House Committee would at least bring the matter formally up for debate and provide an opportunity for public hearings.

It would seem that the effect of any extension of the capital gains holding period will be felt more in the real estate field than in the securities markets. Aggregate effects in the latter indeed may perhaps be quite negligible, for lengthening of the period would certainly discourage securities sales by those subject to the short-term levy. To that extent, then, it might tend to make prices rise more than would otherwise be the case. This of course would apply only to securities bought after the effective date, since earlier purchases would be exempt from the longer holding requirement. But in time, there would be bound to set in a certain market stagnation, in line with the growing volume of securities that holders would be reluctant to sell because of the higher tax impost. The further the market advances, the more pronounced would become the reluctance to sell. But would it also discourage purchases?

Most likely it would, since many would-be pur-

BUSINESS, FINANCIAL and INVESTMENT COUNSELORS : 1907 — "Over Thirty-Eight Years of Service" — 1945

chasers might hesitate to buy in the face of the prospect of seeing purchases locked in for three years, unless they are willing to pay the high income tax rates on capital gains. This may be particularly true of buyers in the middle and higher income brackets. The over-all market effect, then, eventually might well be something of a stand-off though naturally no one can predict this with certainty. Many holders or potential securities buyers are probably willing to hold on to their commitments for their postwar potentials, anyway; they may readily resign themselves to a longer holding period with the valid expectation of coming out with handsome profits three years hence when the expected postwar boom should just about reach its peak.

One adverse effect might be discouragement of a free flow of venture capital into new enterprise. When the holding period was shortened some years ago to the present six months, a telling argument was the very need for stimulating venture capital. That need after the war will be not less but infinitely greater in order to provide maximum employment.

A BIT TOO MUCH . . . Corporate managers, accustomed to tight pricing and the competitive struggle characteristic of modern business, must have experienced considerable shock — and perhaps even a fleeting sensation of envy — when they recently heard of the Wherry plan for cost-plus price ceilings for farm products currently pushed in Congress.

The vagueness with which this amendment to the OPA bill was drafted leaves even those who support it in uncertainty about what its effects would be, though one certain result would be the need for overhauling the price ceilings of virtually everything that comes to the consumer's table. Fortunately, the President's condemnation of the proposal, added to its denunciation by some of the leading farm organizations, should mean the certain death of this ill-timed and ambiguous idea.

The Wherry amendment, adopted by the Senate just before it passed the bill extending the life of the Emergency Price Control Act, would set up a new standard for prices on farm products. It provides, in effect, that the price of every farm product must reflect all costs and expenses of production, including overhead, return on capital and allowance for the labor of the farmer and his family, plus a reasonable profit. Thus one kind of profit — return on capital — would be made the basis for calculation of additional profit, an extraordinary procedure.

As it is, the farmers — enjoying as they do fairly high parity prices — have been doing extremely well in recent years. The parity formula may not be ideal but it has brought prosperity to rural areas and moreover constitutes the foundation for current price control of farm products. The radical change advocated by Senator Wherry would require sweeping revision of every phase of price control affecting such products. No wonder OPA officials were stunned. Quite apart from the merits of parity prices versus cost-of-production prices, this would seem to be a particularly ill-chosen moment for upsetting the farm price base.

STOCKHOLDERS MAY FIGHT SEC . . . Henceforth stockholders may force court review of Securities & Exchange Commission orders affecting corporations of which they hold securities. This right has been established by two recent Supreme Court decisions.

Although the cases turned on a fine legal point, they may well have some lasting and perhaps serious effect on future administration of the Securities Exchange Act. The law says that "any person or party aggrieved by an order issued by the commission" may obtain a review by the Circuit Court of Appeals.

Heretofore, nobody precisely knew whether a stockholder could qualify as an "aggrieved person." The usual rule is that a corporation can be depended upon to look out for itself and that a stockholder's action can be effective only if the corporation hasn't taken adequate steps on its own account.

The court found that under the wording of the law, both plaintiffs had a grievance, hence were entitled to protest. One of the justices, in a dissenting opinion, expressed fear of minority stockholders henceforth "harassing" the S.E.C. and their respective corporations by challenging future S.E.C. orders, and the S.E.C. itself, presumably for the same reason, does not appear particularly happy over the decision.

However, it may not be as bad as all that. Lawyers agree that the ruling may invite stockholder suits but they also opine that most important S.E.C. actions are fought out so thoroughly — by the corporations themselves — that there isn't much that stockholders can add.

FOREIGN OIL THREAT . . . Independent oil producers are concerned over the vast petroleum reserves of the Middle East, South America and the Caribbean area which, they feel, pose a problem to the domestic industry unless postwar imports are closely controlled. With output in these areas greatly boosted by prodigious war needs, they fear after the war the unleashing of a flood of foreign oil on the United States at a price that will "snuff out" the incentive of the domestic operator to explore and develop new fields.

It seems, however, that this fear is somewhat premature. It will be a long time, until excess output in these areas will be large enough to become a real danger to the American oil industry, if ever output there is permitted to reach such unwieldy proportions. Moreover, world demand for petroleum and petroleum products is strongly on the upgrade and broadening markets everywhere should provide adequate outlets for foreign production.

In the last analysis, whether foreign oil will ever become a substantial "threat" to our oil industry will be largely a matter of policy, and it is difficult to conceive of evolution of a policy that would tend to write off the United States as a strong producing nation. On the contrary, any future policy will more likely be designed to strengthen rather than weaken our oil position. We are sure that nurturing or permitting destructive competition from abroad can be no part of such policy.

As I See It!

BY CHARLES BENEDICT

THE WILL TO PEACE

IN the past several weeks we have made substantial strides towards organizing postwar peace and the part we have played has been a most worthy one. President Truman has shown himself to be a man possessing native good judgment and balance, in a word — possessing the ingredient of common sense which makes any case we present reasonable and logical. We are fortunate in having such a man at this critical stage in our affairs.

Of great interest, too, are the accomplishments of Mr. Harry Hopkins who will now receive recognition to which he has evidently long been entitled. In fact it would seem that the President not only chose the right way to work for cooperation towards peace but also the right men as his peace emissaries. The more we watch Mr. Truman in action as President, the more convinced we are that he knows how to work with men, that he has the capacity for arriving at quick decisions on the facts presented, indicative of the confidence that comes with success in solving knotty problems over a long period. Mr. Truman has learned the hard way — the way that always develops the greatest capacity.

It was evident from the beginning that regardless of the various crises that occurred at San Francisco, Russia had never any intention of giving up her place at the Conference. To have done so would have thrown her into costly isolation requiring the maintenance of huge forces for the protection of her far-flung borders. The cost would have been enormous for the Russian people — almost more than

they could stand on top of the privations they have been forced to endure these last few years. Also, under such conditions, Russia's attempts to bolshevize her neighbors — an inevitable corollary of political isolation — would have produced the type of violent reactions that could only bode ill for Russian tranquility. Mr. Hopkins must have been armed with the right kind of arguments to convince Stalin.

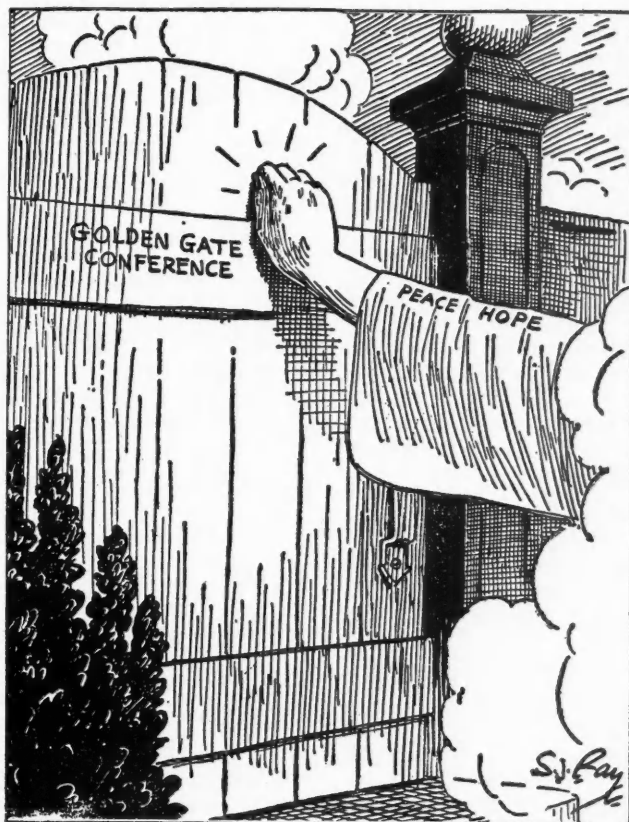
But, finding solutions in Moscow is only one of the critical situations which need ironing out. There have been, and still are, other trouble spots. It is

reported that although Mr. Hopkins visited Paris, he did not call on General de Gaulle, and that the refusal of the United States and Britain to consent to a five-power agreement on the Near East has further affected the French leaders position, the foundation of which was already shaky as a result of his unfortunate temperament — that rigid mentality which alienated some of France's best friends.

Still, there has been some progress in one direction. It now appears that after prolonged negotiations, de Gaulle has decided to accept the French zone of occupation in Germany as proposed by the British and Americans, though the area assigned to the French forces is smaller than what he sought. It is understood that he will quickly give his formal consent so that the process of completing Germany's occupation which was held up awaiting French acceptance, can proceed in accordance with the four-power plan.

The French zone now

(Please turn to page 348)



Ray in The Kansas City Star

"Opportunity knocks."

Stock Market Laboring

The technical evidence suggests further near-term rise, despite the slow pace of most better-grade stocks. The movement is becoming increasingly laboring, and thereby is building up for a let-down. This is no time to depart from a conservative, selective, middle-road investment policy.

BY A. T. MILLER

THE immediate technical indications suggest that moderately higher prices are likely over the near-term, despite the relatively laggard action of the Dow-Jones industrial average and the similar lethargy of our weekly index of 100 high-price stocks. The industrial average actually lost a bit of ground over the past fortnight and has yet to surpass the bull market high it recorded near the end of May.

The rail average has been setting the pace recently, although the utilities have continued their creeping advance to periodic, and frequent, new highs. In broader terms, it can be said that speculative stocks in general—and low-priced stocks in particular—are pretty much making the market. Notice the position of the index of 100 low-price stocks on the accompanying chart.

Indeed, there is only one fly in the speculative ointment at the moment. That is the "divergence" of the Dow industrial average. Technically-minded people don't like to see the industrial and rail averages "out of gear" for any length of time. The rails posed a similar question, by lagging, for about three weeks in April-May; but shortly thereafter they not only "confirmed" a new high in the industrials but once more took over the speculative leadership.

Volume of transactions has expanded very substantially on the recent movement. The chances are that the Dow industrials will join the parade sufficiently to make a new bull market high over the near future. It looks that way—barring some unpredictable happenstance—because the market is strong and strength is "catching." It also looks that way because, on the record for nearly half a century, the seasonal odds have been preponderantly in favor of some degree of "summer advance."

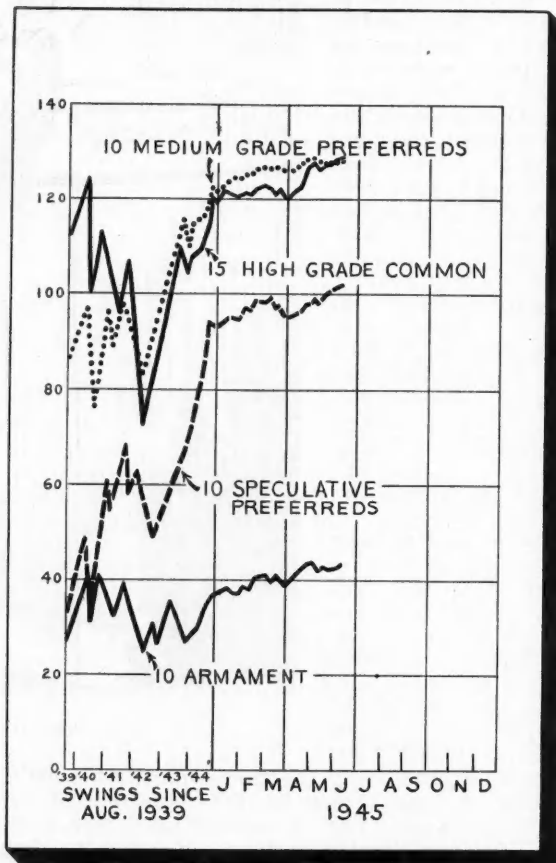
Nevertheless, it should be emphasized that this market shows every evidence of being in an increasingly speculative phase. The character of the bull leadership shows it. The group rotation shows it. The "easy money" fever in brokerage-house boardrooms shows it.

It is, we think, a reasonably safe prediction that good stocks are unlikely to run away from present levels. If they make new highs on the current developing move—as typified by the Dow industrial average—it probably will be by a small percentage margin. This statement is not based on the technical evidence, nor a hunch—but just on common sense reasoning.

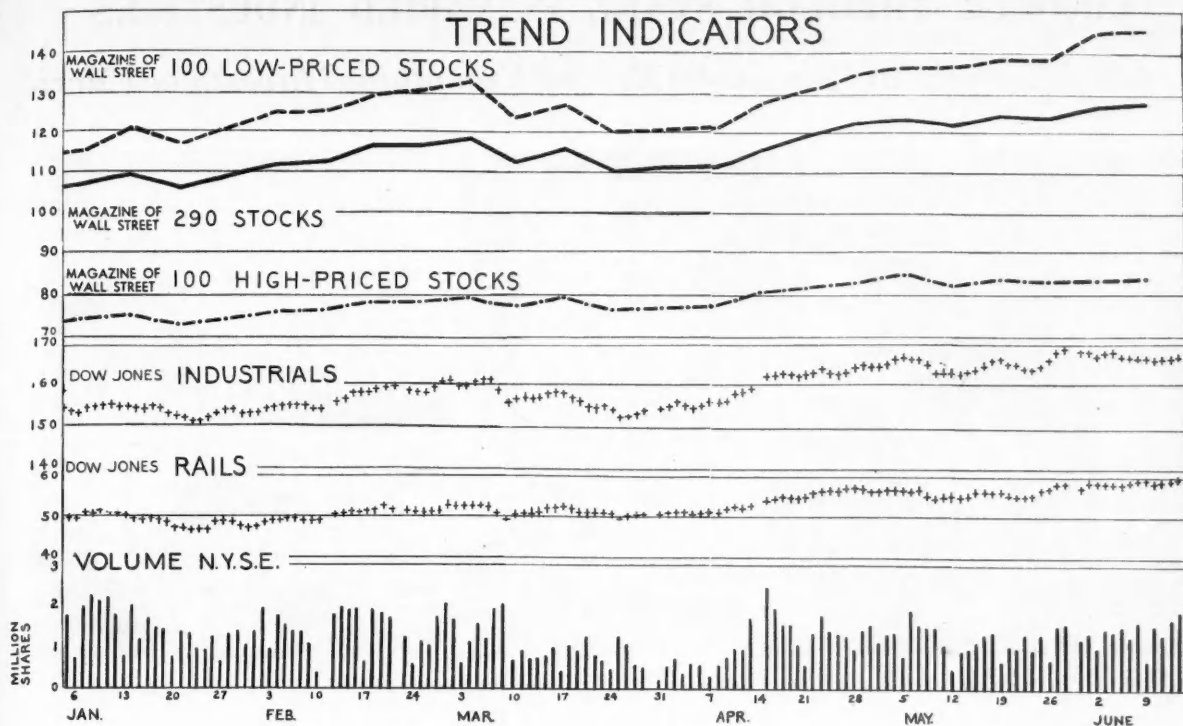
We reason that investors are not as careless of

their money as speculators. They are more inclined to demand solid values, and to hold idle cash when they don't see attractive values. They know that the average stock is far advanced from the bargain-counter of 1942 or 1943. They are more inclined than speculators to give heed to the thought that we are not far away from a reconversion environment in which production, employment and corporate profits are going to be trending downward. They know that the "post-war prosperity" chickens are being counted long before they can be hatched. They are aware that the question of the duration of the Jap war—for the present wholly unpredictable—might at almost any time become a very pertinent market factor.

Putting this all together, sensible investors know



TREND INDICATORS



that most of the stocks now in greatest speculative favor are in very advanced ground, as measured by all reference points back to the 1937 bull market highs — and in many instances by even more extreme past highs; and they know that when stocks are in historically high ground, something will always happen in due time to shake them off the limb. We therefore figure that in the event of further rise this summer — with the market, in effect, thumbing its nose at the coming transitional deflation in corporate earnings — investment demand is likely to become even more cautious and discriminating, letting the speculators gamble for the last few points in this phase.

We have stated that speculative stocks are at very advanced levels. Some facts and figures are in order. Our indexes of high-priced and low-priced stocks are based on the prices of November 14, 1936, at which time the Dow industrial average was around 180, 13 points or so above the present level and within about 14 points of a major high which, after the passing of eight years, has still to be equalled. At present the index of 100 high-priced stocks is about 15 points below the November, 1936, base, while the index of 100 low-priced stocks is some 51 points above it.

In the final few months of the bull market in the spring of 1937 speculation was rampant, though the great bulk of the buying then, as now, was on a cash basis. The low-priced stock index reached a level 28½ points higher than the index of 100 high-priced stocks. At the end of last week, this spread was 65.82 points. In other words, in relation to the 100 high-price stocks — which don't average out arithmetically to "blue chips" by any means — the low-priced stocks are now about 131 per cent dearer

than they were at their 1937 high. They are now about 11 per cent above their 1937 high, the 100 high-priced stocks about 27 per cent below their 1937 high.

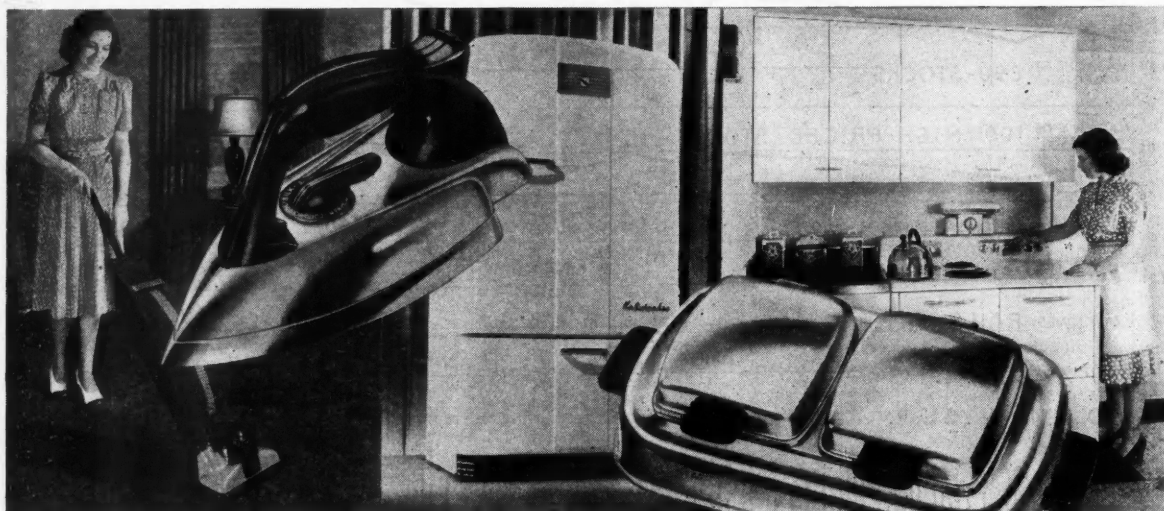
It is easy enough to cite valid reason for the preference heretofore shown to low-price, or otherwise speculative, issues. In the first place, the war-economy has aided earnings of marginal companies, on an average, more than those of leading companies. Second, the inflation of the money supply — as always — tends to encourage speculation. Third, speculation has been additionally encouraged by the combination of high income taxes and a fixed (25 per cent) capital gains tax.

But to cite a basis for speculation is not to say that it is of continuing and perpetual validity. The first reason cited — the relative gain in war-time earnings status — obviously will not remain effective. On the contrary, marginal and secondary companies will have larger transitional-period earnings declines, on the average, than leading companies; and in the competitive post-war economy the latter will again have the edge. The other two reasons — as well as the much emphasized "pressure of idle funds" — are generalizations by which an overdone speculation will be rationalized — until it cracks up.

As demonstrated by the figures cited, we believe that for longer-term purposes good-grade stocks are not only safer but more attractive on a cyclical price basis than low-priced stocks or the general run of speculative equities. While we anticipate a substantially higher composite price level eventually — and a moderately higher one over the near-term — this is no time to depart from a conservative, selective, middle-of-the-road investment policy — Monday, June 18.

GROWTH THROUGH STAKE IN VARIED INDUSTRIES

...with Selections of Companies Having Exceptional Investment Merit



BY E. A. KRAUSS

TO the long-range observer of our industrial scene, the trend towards diversification among American corporations has always been a fascinating subject. To the alert investor, it has also been a profitable one.

The time of new great vertical and horizontal business combinations, so popular in the early phase of the "merger era," is of course largely passed. In its stead we have been witnessing pursuit of corporate growth and earnings stability by means of complementary combinations, offering not only worthwhile diversification of the productive effort but also greater freedom from anti-trust proceedings due to the non-competitive character of the merger components. This trend, as well as the popularity of simple product diversification, today continues strong in many fields and promises to be productive of a good many new-type "growth companies" meriting special investor attention.

Diversification and product expansion in order to follow and if possible anticipate the trend of demand, or exploit exceptional demand potentials such as envisaged for the postwar in many fields, is one of the soundest tests of corporate management. And success in any such endeavor may indeed greatly benefit the investor able to "spot" promising situations. The latter is important, for diversification along unsound lines may well result in losses rather than increased profits, or at best in a very indifferent showing. In the past this was frequently the case where diversification was undertaken merely to add new products to develop new customers without regard to the characteristics of the industry. Often new products or required new selling methods

have produced serious problems. On the other hand, industry's history is replete with examples where wise diversification led to outstanding success.

The present trend towards products diversification follows the example abundantly provided by many leading corporations. DuPont and Hercules Powder, for instance, for years have been engaged in continuous exploitation of new products. Such industrial giants as General Motors, General Electric and Westinghouse Electric have steadily opened new fields and thereby maintained not only healthy growth but their stature as leading corporations. Borg Warner and Briggs Manufacturing overcame the adverse effect of strangling competition in the automotive parts business by developing new markets involving metallic pressing, cutting and stamping operations, and they did quite well. Timken Roller Bearing assured further growth by more diversified uses of its major products. National Lead struck out for stability of earnings by developing new forms of paints and pigments. Numerous automotive accessories companies have successfully shifted to non-motor lines to escape dependence upon the fluctuation of the motor car industry.

Particularly aggressive diversification into new fields is afforded by the recent history of General Motors and Chrysler. The former, from automobiles, branched out into household appliances, radio, diesels, air conditioning equipment, aviation equipment and other items. Chrysler took up the manufacture of marine and industrial engines, air conditioning and stokers, quite apart from making a wide range of parts and accessories incidental to its lustily growing automobile business. The wide range

of diversified products made by General Electric and Westinghouse is only too well known. Corporations of this calibre do not await invasion of their fields before they act. Their best defense is attack, for they recognize the rule of industrial change; new markets therefore are constantly being explored.

Great product shifts have occurred in the machinery industry, in the railroad equipment industry and elsewhere. Johns Manville, a leader in synthetic building materials, has since 1928 largely rebuilt its business by new products which have been developed or improved in its research laboratories or factories. American Car & Foundry has expanded into motor bus manufacture. American Locomotive went into Diesels and, through its Alco Products subsidiary, into oil refinery equipment. Most chemical companies have achieved stability and growth by continuous development of markets for new products.

War and Postwar Incentives

The war, and especially the extremely attractive postwar demand potentials in numerous fields, is proving a new fillip to the urge to diversify. American business, despite its preoccupation with the gigantic armament program, for months has been giving thought to the postwar outlook and frequently, thought and planning was followed by prompt action. There has been new activity in the merger field with a view toward strengthening competitive positions or prepare for fullest exploitation of postwar potentials; this trend has accelerated considerably in recent months.

Of particular significance is the fact that larger corporations aren't the only ones active in this respect. Neither have all the corporate expansion programs been aimed at improving competitive positions. Greater diversification of output is the goal

in a great many cases; the ultimate object stability and growth of earnings and lessened vulnerability to cyclical influences. Providing a maximum of postwar jobs is another broad aim and the technical experience gained during war production often acts as a powerful incentive to branch out. Companies formerly confined to a single product have been turning out dozens of articles foreign to them before Pearl Harbor. They like to continue diversified output and are ready to add many new lines to their prewar specialties.

Numerous examples could be cited. Packard, formerly exclusively an automobile maker, during the war devoted much of its activities to aircraft and marine engines. The company intends to continue such production in peace-time. Graham-Paige, in addition to making automobiles, plans to go after a big slice of the farm machinery market. General Motors may turn some of its plants over to the peace-time production of aircraft engines. General Mills, leading flour miller, expects to produce and greatly expand its sales of household electric appliances. Bendix Aviation, leading war-time producer of instruments tied to electronics, will continue to turn out products it never heard of before the war. Servel, long a leader in gas-heating and gas-refrigerator equipment, plans a broad expansion in new gas-fired air conditioning equipment. Beech Aircraft, straying far afield, contemplates extensive production of prefabricated housing.

Rheem Manufacturing Co., a budding West Coast concern primarily making steel pails, drums, tanks and some household appliances, recently bought a large interest in a helicopter concern (Platt LePage Aircraft Co.) and additionally acquired the Stokermatic Co., a pioneer manufacturer of automatic coal stokers, water heaters and basement furniture.

Bethlehem Steel (which incidentally paid over \$2 million last year for a one-third interest in Rheem Mfg.) recently entered into the manufacture of oil

Companies Enjoying Substantial Product Diversification

	Sales in mill. of \$			Net per share		Div. per share		Div. Yield	Book Val. per share	1944-45 Price Range	Recent Price	Price-Earnings Ratio
	1936-39 Av.	1941	1944	1936-39 Av.	1944	1936-39 Av.	1944					
Allied Chemical	\$163.475	\$247.902	\$294.717	\$9.51	\$8.14	\$6.75	\$6.00	3.7%	\$107.35	165¼-141	158½	19.4
Amer. Chain & Cable	24.258	49.287	73.923	2.12	2.93	1.07(a)	2.00	6.5	19.36	31¼-23	30½	10.4
Amer. Home Prod.	26.424	44.415	98.999	5.16	5.21	2.54	2.70	3.3	26.58	81½-65	79¾	15.3
Atlas Powder	16.203	34.516	45.024	3.78	5.29	3.12	3.25	4.4	55.10	74 - 52¼	72⅞	13.7
Bohn Aluminum	15.189	35.550	71.273	3.05	6.21	2.31	3.00	5.1	42.64	61⅞-45	58½	9.4
Borg Warner	54.926(c)	119.385	197.554(b)	2.40	3.42	1.52	1.60	3.7	26.87	44¼-34½	42¼	12.3
Celanese	32.264	62.277	101.655	2.05	2.87	1.06	.50(g)	5.3	17.87	52½-31⅞	49	17.0
Chrysler	600.001	888.366	1098.073	9.68	5.70	6.75	3.00	2.6	57.11	117¾-77¾	114½	20.1
Continental Can	117.910	136.652	174.337	2.78	2.12	2.56	1.00	2.1	34.65	47⅞-32½	46⅞	21.8
Crosley	17.340	27.171	98.168	.47	6.05	.31	1.00	2.4	23.42	40⅞-16¾	40⅞	6.6
Dresser Industries(h)	5.723	11.777	54.995	.68(c)	2.44	.37(d)	1.00	3.5	16.06	30¾-27	27⅞	11.3
DuPont	270.155	503.352	646.168	6.54	6.60	5.65	5.25	3.1	52.09	172¼-137	166	25.1
Firestone	148.632	268.091	651.410	2.48	7.34	1.41	2.00	3.2	57.51	64 - 38¾	61⅞	8.4

(a)—1937-9 Avge. (b)—1943. (c)—1938-9 Avge. (d)—Initial div. paid Dec. 1939. (e)—1936-8 Avge. (f)—Adjusted for 4-for-1 split. (g)—Plus 3 sh. for each 70 sh. (h)—Figures adjusted for 2-for-1 split.

pumps, oil drilling rigs and other oil field equipment, a totally new line for this leading steel concern. U. S. Steel likewise has been acquiring units outside its regular field. It recently bought an interest in the Gunnison Housing Corp., a veteran in prefabricated housing, and the Witte Engine Works, a maker of Diesel and other engines used for oil well pumping and other industrial purposes.

American Chain & Cable has been active in preparing for expanded postwar distribution. It aims at diversification through acquisition of such varied companies as the Wilson Mechanical Instrument Co., a maker of hardness testers, used extensively by metal working plants, and by purchase of the Pennsylvania Lawn Mower Works. The latter was done on the premise that war has created an unsatisfied demand pointing to large and continuous business in the postwar period.

Veering sharply from its regular line, General American Transportation Co. recently acquired a maker of fabric notions and bias tape and is currently engaged in developing plastic processes. Only just now, the company completed negotiation for acquisition of Eclipse Moulded Products Co., manufacturers and distributors of plastic products. American Type Founders which makes printing equipment and supplies, has purchased companies engaged in such foreign lines as the manufacture of fine tools, light office machinery and radios. Interchemical Corp., a leading printing ink manufacturer, has enlarged its paint and varnish division by the recent purchase of two well-known companies in this field. Continental Motors, by expending \$2.61 million for the purchase of the Gray Marine Motor Co., has acquired a postwar stake in the marine motor field.

Perhaps most extensive have been postwar preparations of Continental Can by acquisition of six companies over the past two years and their merger into the corporate system as subsidiary units. The

company has purchased a few small can manufacturers, a sign company, a maker of crown caps and cork products, the moulded plastics division of Reynolds Spring Co. and a substantial interest in a second plastics producer, the Marco Chemical Co. Continental Can apparently intends to go places, striking out from a greatly strengthened and diversified operating basis.

Expansion In Logical Directions

In many of the instances cited, expansion and diversification moves constitute logical steps, mostly closely related to existing business. Similarly, it is a natural move for Philco to make washing machines; for Westinghouse to go back into radios; for Carrier Corporation to add frozen food lockers; for International Harvester to add household refrigerators for the farm market to its line of bulk-storage refrigerators. Yale & Towne took a logical step in acquiring a manufacturer of heavy scales, to supplement its line of lifts, trucks and hoists. Less closely related to present experience but no less reasonable marketwise are the plans of National Gypsum to produce heating and air-conditioning equipment, or of Reynolds Spring to take up the manufacture of farm implements, or for Motor Products Co. to enter the field of quick freezing equipment in which it already holds a new but prominent stake.

Of course, not every company can find a closely-related product. Many have looked and will look in other directions. It follows that the longer jump from present products carries greater risk—and sometimes greater rewards. Manufacturers at any rate are alive to the fact that the postwar industrial market will be wide open for anything new that contributes to lower costs and improved labor productivity. And competition everywhere will be fierce. This fact alone (Please turn to page 344)

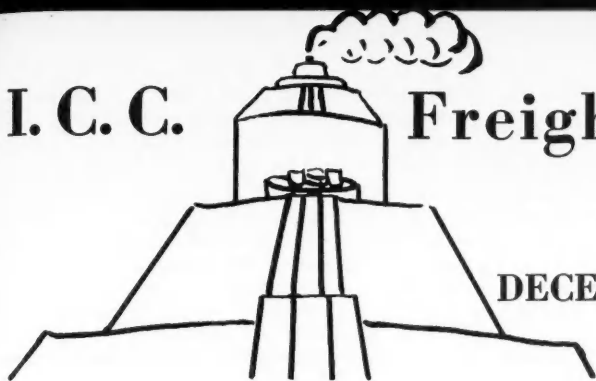
Companies Enjoying Substantial Product Diversification

	Sales in mill. of \$			Net per share		Div. per share		Div. Yield	Book Val. per share	1944-45 Price Range		Recent Price	Earnings Ratio
	1936-39 Av.	1941	1944	1936-39 Av.	1944	1936-39 Av.	1944						
Gen. Amer. Transp.	\$46.514	\$55.014	\$88.699	\$3.34	\$3.05	\$2.50	\$2.25	4.1%	\$64.67	55 $\frac{7}{8}$ -41 $\frac{3}{4}$		53 $\frac{3}{4}$	17.6
Gen. Electric	295.612	679.333	1353.012	1.53	1.76	1.50	1.40	3.1	14.75	44 $\frac{1}{2}$ -35		43 $\frac{5}{8}$	24.7
Gen. Motors	1372.400	2436.800	4262.249	3.99	3.68	3.31	3.00	4.3	25.70	70 $\frac{1}{2}$ -51 $\frac{3}{4}$		69	18.7
Hercules Powder	38.784	85.612	105.678	2.93	3.26	2.49	2.50	2.7	32.75	91 $\frac{1}{4}$ -75		90	27.6
Motor Products	14.304	19.253	51.931	1.56	2.87	2.06	1.00	3.3	22.69	32-15 $\frac{1}{2}$		29 $\frac{1}{2}$	10.2
Murray Corp.	33.723(e)	42.671	94.639	.11(e)	1.51	.19	.75	4.0	20.87	19 $\frac{1}{2}$ -8 $\frac{7}{8}$		18 $\frac{5}{8}$	12.3
Nash Kelvinator	69.067(a)	122.045	274.436	def.43(a)	.71	.37	.50	2.4	11.73	22 $\frac{3}{4}$ -11 $\frac{1}{2}$		20 $\frac{5}{8}$	29.0
Philco	42.618(a)	77.073	152.933	.38(a)	2.87		1.20	3.3	16.96	40-24 $\frac{3}{8}$		36	12.6
Reynolds Spring	5.562	8.526	7.612	.57	1.12	.44	1.00	5.1	10.33	21 $\frac{5}{8}$ -8 $\frac{1}{4}$		19 $\frac{1}{2}$	17.4
Rheem Mfg.	6.152	19.512	74.646	1.67	1.85	.93(a)	1.00	5.2	11.84	20 $\frac{1}{4}$ -13		18 $\frac{7}{8}$	10.2
Smith, A. O.	24.812	46.667	178.112	Nil	12.85	Nil	1.00	1.4	68.51	77-29 $\frac{1}{2}$		67 $\frac{3}{4}$	5.2
Stewart-Warner	26.605	53.934	107.661	.85	1.54	.31	1.00	4.8	18.91	21 $\frac{3}{4}$ -11 $\frac{3}{4}$		20 $\frac{3}{4}$	13.4
Westinghouse Elec. Mfg. f)	173.461	369.094	835.737	1.36	2.03	1.09	1.00	2.8	23.78	37 $\frac{7}{8}$ -33 $\frac{3}{8}$		34 $\frac{3}{4}$	17.1

(a)—1937-9 Avge. (b)—1943. (c)—1938-9 Avge. (d)—Initial div. paid Dec. 1939. (e)—1936-8 Avge. (f)—Adjusted for 4-for-1 split. (g)—Plus 3 sh. for each 70 sh. (h)—Figures adjusted for 2-for-1 split.

I. C. C.

Freight Rate Decision...



FIRST STEP TOWARD DECENTRALIZATION OF INDUSTRY

BY JOHN D. C. WELDON

THE South and West last month celebrated what they considered a major victory assuring future economic expansion and growth of their regions. For almost sixty years, Southern industry in particular had bitterly complained that the existing freight rate structure affords Eastern competitors an undue advantage and acts as a barrier to industrial development below the Mason-Dixon line. The West, more recently, has joined the chorus of complaints. Both have gained notably in industrial strength as war forced production into every nook and cranny of the country's geography and stimulated industrial activity in areas hitherto predominantly agricultural.

Now the old controversy over freight rates has taken a new turn. In a 307-page decision that had been six years in the making, the Interstate Commerce Commission has declared that freight rate differentials between the North on the one hand, and the South and West on the other are "unreasonable and unduly prejudiced." To equalize the situation, the Commission ordered the establishment of a uniform system of freight classification for the whole country, and eventually a uniform schedule of "class rates" for all territory east of the Rockies. This may take several years. In the interim, the Commission ordered an immediate adjustment that will narrow the freight differentials without eliminating them completely, thus removing at least part of the freight advantage which the East has over the South. Carriers in the Northwest are to raise their rates 10% on August 30; those in the South and West are to lower them by a like amount. These interim adjustments apply to "class rates" only; the latter in turn are applicable chiefly to non-bulk shipments.

Spokesmen for the South and West have long maintained that class rate differentials—usually charged for the shipment of finished manufactures—have greatly militated against establishment and growth of manufacturing industries in these territories. Higher shipping charges, they contended, have meant higher selling prices and a distinct competitive disadvantage. Stepped-up industrialization due to wartime causes and developments such as the Tennessee Valley Authority with its cheap electric power only served to heighten the discontent.

Little wonder, then, that south and west, the I.C.C.'s decision was hailed enthusiastically "as the most important economic decision in the country's history." Some call it a "Magna Carta of economic freedom." The decision, coming at this time, will enable the South and West to retain many of its

war industries and speed up postwar industrialization, thereby creating a wholesome balance between agriculture and industry. That at least is the hope.

Behind the decision lies a long battle for markets, chiefly a struggle of budding southern and western manufacturers to place their products in the competitive East. In this struggle they had important advantages—lower labor costs, cheap electric power and frequently other production advantages but higher freight charges proved a painful offsetting factor. Freight rates had been developed on a regional basis and remained lower in the East than elsewhere. As a consequence, a Southern manufacturer, for example, might be equidistant from a potential Eastern market with a competitor in New England, but his freight charges would be higher. He was under the same handicap even when shipping goods to certain Southern markets. Hence the cry for uniformity.

East Argues in Vain

Thus however one looks at the I.C.C. decision, it appears a clear victory for the South and West, with the railroads and the East the apparent losers. Railroad operators had argued in vain that the rate differentials reflected only the higher cost of hauling freight in the sparsely populated, lightly industrialized South and West; that the volume of "class" traffic in the North is so much greater—and thus cheaper per unit—as to warrant special treatment. They also pointed out that the nature of freight carried varies with the different sections; in the North where it is mainly manufactures, class rates are lower, relatively, than are those for bulk commodities, while in the South and West, the reverse is true. Last but not least, it was held in railroad quarters that it is not the I.C.C.'s province to use its rate setting powers to shape or assist the economic development of any particular section of the country.

The latter point of course is highly relevant, for many are wondering if equalization of freight rates as sought by the I.C.C. does not mark the first official step in the evolution of the South's economic growth. Unquestionably it does—in its practical effect, hence the point is well made. That this is so is roundly confirmed by Southern spokesmen themselves who have applauded the decision with comments such as: "America may well take notice—the South is on her way."

It is with a good deal of justification, therefore, that the decision is also viewed as a fundamental departure from past practice and in that sense "his-

toric." For continuation of this type of thinking by members of the I.C.C. will, it is felt, eventually bring about the complete abandonment of territorial distinction in freight rates. The inevitable result of this will surely lead to further decentralization of manufacturing from the traditionally industrial Northeast and growing interest in the attractions and economic potentials of other parts of the country, many of them only partially developed.

Long range significance of the freight rate equalization move almost certainly tends in this direction but it would be unrealistic to expect that the South and West now will raid the North of its manufacturing establishments or that there will be a major shift of industry from North to the South and West. Favorable freight rates may be one factor determining choice of location on industrial plants but there are many others which may well carry even more weight—availability of skilled labor and cheap fuel for one, and proximity of markets for another. It is hardly open to question that the South and West will continue to expand industrially, and do it at a somewhat more rapid pace now that freight rates will be equalized. But it is unlikely that this expansion will be sudden or markedly at the expense of the North.

Greater Economic Balance

True, equalized freight rates will attract manufacturing industries to the South and West, mostly smaller or medium-sized and of the local variety which for reasons of economic balance is particularly desirable in both regions. While in this sense they will grow, the North and East should have no difficulty in retaining a stabilized market for their manufacturing output. Their *growth rate*, however, may well fall considerably behind that of the new industrial regions to the South and West. To this extent, the South's gain may become the North's loss.

Take for instance New England which already suffers from the transfer of a large proportion of the textile industry to the South where, it might be argued, it naturally belongs as an adjunct to the Southern cotton economy. This and perhaps other migrations may well be accentuated by the I.C.C. decision. Rates on unfinished cotton cloth have been 10% higher when the movement is from the South to the North than when it remains in the South, and 10% constitutes a considerable margin in the already tightly priced textile industry. Similarly, a shoe manufacturer in Dallas, operating close to the source of his raw material, in the past had difficulty competing with a Boston shoe manufacturer even in such markets as Memphis, Mobile and St. Louis, because of the lower freight rates charged the northern producer. With the freight differential eliminated, Southern makers should obtain a far better competitive position, and certainly will make the most of it.

For the moment, there is a tendency in some quarters to minimize the probable effect of the I.C.C. ruling on the grounds that it applies only to "class rates," that is to items totalling only 4.1% of the nation's freight. By far the greater part of the latter, or some 85%, is hauled at special "commodity rates", covering such bulk shipments as coal, iron,

ore, fertilizers, lumber, cotton and others. Some 10% of the nation's carload freight is carried under "exceptions", meaning reductions below the class rates dictated by special considerations.

However, while the amount of today's "class rate" freight is relatively small, it is bound to grow as Southern and Western manufacturing is stimulated by future rate equality. Also, class rates cover "high value" items—big revenue producers for the railroads, and many of the manufacturing items that loom large in the thinking of Southern and Western groups who hope for expansion of their peacetime industries.

As already mentioned, the I.C.C. decision covers only class rates. It doesn't apply to commodity rates, and it avoids the question of "exceptions" with a disapproving but by no means prohibitive remark about their "ever-increasing number." This is another reason why some contend that unless the I.C.C. later also attempts to make the commodity and "exceptions" rates uniform throughout the nation, no profound effect upon the geographic structure of American industry will be accomplished simply by equalizing class rates. The soundness of this reasoning is at least questionable.

For the moment, however, the victory hailed by Southerners and Westerners lies in having changed the basis on which rates are made, meaning the removal of an obstacle to the settlement of industries in their areas. At present there are three different classifications—the Eastern (also called the official), the Southern and the Western. The I.C.C. wants to replace all three with a single classification using the Eastern system as a pattern. Once this is done, the same commodity will take the same class rating all over the country, regardless of its origin or destination. It is what the South and West have been fighting for for a long time.

The I.C.C. ruling envisions a new rate system in which the rates for all regions, except in the Mountain-Pacific Territory, will be equalized at 115% of present basic rates for the Eastern or official territory. This will mean raising the rates in the East by some 15% and hammering down the Southern and Western rates by as much as 37%. In this particular respect, the Southern crusaders did not get exactly what they asked. Actually, they wanted northern rates kept where they are, and southern rates cut to parity with them. However, the I.C.C. feared that after the war this would reduce Southern and Western roads to financial distress, hence the base for equality will be about 15% above present Class 1 rates.

The Railroads' Viewpoint

Understandably, the railroads are not particularly happy about the whole situation. To carry out the new order calls for an enormous amount of paper work at a time when, understaffed as they are, they are ill prepared for it. But more important, they question the propriety of the I.C.C. decision—of the policy behind it. They hold that the legitimate function of a regulatory commission is to adjudicate differences between suppliers and users of a partially monopolistic public service and to prevent either party's injuring the other, but not to attempt to shape and channelize economic development of

the nation. They consider the Commission's action presumptuous and unjustified; hence there is talk about an appeal to the courts which almost certainly would further delay application of the decision.

But the Southern crusaders, too, insist on their day in court despite the I.C.C. action. They say the ruling won't stop the dramatic Supreme Court suit brought by Governor Arnall of Georgia in an attempt to knock down rate differentials by court action and outlaw rate-making through "railroad influenced bureaus and conferences." Governor Arnall has stated that he will go ahead with his suit to make doubly sure of the concessions the Commission has granted, and if possible even extend them. The I.C.C. thus may well find itself between two fires.

In view of its basic importance, the freight rate decision is naturally having repercussions elsewhere. OPA ceiling prices are involved directly in view of the 10% increase ordered for Eastern rates. Cost recalculation on the new basis may find many retail prices approaching or even pushing through official ceilings, thus call for upward revision at a time when the OPA is struggling hard to "hold the line."

What about the impact on railroad earnings? Railroad shares were largely unaffected by the ruling which was natural in view of the consensus that the proposed rate changes are principally significant only from a long-term viewpoint. Railroad officials

are unable even to guess the likely effect on revenues of individual carriers. For the Eastern territory as a whole, however, revenues will rise under the temporary program, possibly by as much as \$18 million annually while those of Southern roads may be reduced by something like \$8 million a year. For Western railroads a cut of some \$16 million is envisaged. Necessarily, all these figures are rough approximations. According to some, Eastern revenue gains may amount to as much as \$25 million but even so, the amounts involved will

be relatively insignificant when compared for instance with the \$1.4 billion of operating revenue received by the nation's railroads in the first two months of this year.

The rate reduction ordered for Southern railroads must necessarily remain small in the aggregate since some 90% of their traffic is moved on commodity and exception rates which are not changed. Western roads hope that any decrease in revenues will be more than offset by final congressional approval of the restoration of full rates on land-grant shipments. The House already has adopted a bill to that end.

Some railroads operate in more than one rate territory. Thus increased rates in the Eastern region may be offset by rate decreases on shipments originating in Western and Southern territories. On the whole, the ruling's impact on individual railroads should remain limited from the standpoint of earnings at least for some time to come.

It has been described as questionable when and whether the entire interim program will go into effect. New tariff schedules have to be posted 30 days in advance and there is much doubt whether the hundreds of thousands of point-to-point rates for a multitude of articles can be calculated and tabulated by the end of July which would be necessary if the adjustments are to be made by August 30 as demanded by the I.C.C.

What Next?

Also there have been suggestions that the Eastern roads may reject the 10% rate increase ordered, and let the case go to the courts. I.C.C. action in ordering an unsolicited rate increase is unprecedented, it is held, and there are serious questions of the Commission's power to do so. As far as Eastern and Northern railroads are concerned, there is a very practical reason behind their reported reluctance to accept the freight rate boost: It is the fear that it may play right into the hands of truck competition. Knowing how truck competition has cut into rail freight in past years, this concern is understandable.

It is natural, too, that Eastern shippers and businessmen generally are uneasy and uncertain over a prospective change in long-established patterns just as consumers and OPA officials are wondering about the effect on prices. It is clear that impacts of the freight rate decision are bound to have wide ramifications eventually but consequences—especially as to prospective movement of industry away from the Northeast—should show up slowly, almost imperceptibly at first. Rash decisions are no part of business planning; it would be entirely unrealistic to anticipate a virtual overnight change in our industrial geography though it must be conceded that the incidence of reconversion, and the special opportunities it presents to manufacturing industries, may well impart a somewhat faster tempo to whatever movement may normally be expected along such lines.

For over a decade, geographical decentralization of industry has been on the march though it was a slow and cautious march. The tempo may quicken, particularly if this first official step in the evolution of Southern and Western economic growth is followed by others, as it well may. Surplus and plant disposal policies, for instance, offer admirable vehicles, and the apparent shift in political power westwards cannot be dismissed as being devoid of significance in this respect. It all points in the same direction; that the long range effect will be substantial is a foregone conclusion.

The trend for a time at least may have explosive political repercussions but it appears doubtful whether it can be halted or greatly delayed. Even today it is far too powerful a force to be stopped. That it will not be with-

(Please turn to page 338)

"THE 'GO' SIGNAL"



The Nashville Tennessean



THE REAL STORY OF France

BY V. L. HOROTH

FOR many Frenchmen the early days of this June will be just as memorable as were the bank holidays of 1933 for many Americans. Certainly much is likely to be written about the twelve days from June 3 to June 15, 1945, during which time France staged what might be called a monetary round-up, with business pretty much paralyzed but with banks and post offices throughout the country doing landslide business in exchanging all old paper currency with a face value of more than 25 francs for new notes.

Incidentally these new notes, which were printed in the United States and Great Britain, are described as looking very much like "cigar store coupons"; they are to be eventually exchanged again for more imposing looking new notes of the Bank of France. Besides currency notes, Frenchmen were also asked to declare their holdings of short-term Treasury bonds which, being issued mostly to bearer, have been almost as liquid as currency.

Because of shortage, the new notes are being limited to 10,000 francs per person. As in Belgium last October, the old folding money will be retained by the Government, but nothing has been said about blocking a part of it. Apparently the balance will be released gradually as new notes become available. The treasury bonds issued to bearer will be replaced by registered new securities.

The exchange of old notes and the registration of short-term Treasury bonds about completes the census of individual wealth in France. First, hoarded gold was ordered to be surrendered. Subsequently all foreign exchange and securities were ordered to be deposited with banks. About two months ago, the holders of common stock were instructed to register or deposit their holdings, subject to heavy fines and the loss of dividend and transfer rights. Since real estate sales have been under observation for some time, the individual Frenchman who profited from the war has had really very little opportunity to conceal his wealth unless, of course, he has been buying jewelry, furniture and objets d'art.

One of the objects of the French Government's decrees, culminating in the recent exchange of old franc notes for new ones, was to establish a just basis for a levy of wartime profits. This levy is expected to yield about Fr.120 billion during the next few years. No less important object of the clean-up of the currency situation was the forcing of the hoarded old notes into circulation or into Liberation bonds. Farmers alone were said to hold over Fr.200 billion of them. Also it was hoped that the franc notes smuggled out or held by the Germans (estimated at about 10 per cent of the total outstanding circulation of Fr.590 billion) would be eliminated and the circulation thereby reduced.

The clean-up of currency was being prepared for some time, but the French Government, unwilling for political reasons to antagonize the farmers, had been hesitant about it. That it was finally carried out has been due to the growing pressure of money on the available supply of consumers' goods. What happened is, that because of budgetary deficit financing and two wage increases since last September, the available liquid purchasing power of the French people was rising faster than the supply of consumers' goods. By cleaning up the currency situation and inspiring a greater confidence in the franc, it is hoped that inflationary spiral will be slowed down, particularly since there are many hopeful signs that the output of goods will rise at a somewhat faster rate from now on.

Moreover, the rapid rise of prices and costs during the last few months has rendered increasingly more unreal the present franc exchange rate. Yet the time is rapidly approaching when France will have to adjust the internal prices to the external price level, so that she may begin to export in order to pay for heavy imports of the raw materials, equipment and consumers' goods that she will need in the future.

The story of French rehabilitation during the past ten months has been very much akin to that of bringing about a better balance between the huge volume of purchasing power (created during the occupation by the paying for goods produced or confiscated by the Germans) and the volume of goods available to the French consumer. It was argued at the time of liberation that the country's plight was not so much due to the expansion of money but rather to a sharp drop in production, which in the Fall of 1944 was consid- (Please turn to page . .)

Comparison of Wartime Expansion of Public Debt, Bank Credit and Note Circulation

(all figures in billions of nat. currency)

	1939 Aug.	1944 Sept.	Per Cent Increase
United States (dollars)			
Public debt	41	209	+ 410
Commercial bank deposits (all banks)	44	83	+ 89
Notes in circulation	7	24	+ 242
Great Britain (pounds sterling)			
Public debt	7.78	19.57	+ 151
Commercial bank deposits (London Clear.)	2.24	4.16(b)	+ 86
Notes in circulation48	1.10	+ 129
France (francs)			
Public debt	445	1,650	+ 271
Commercial bank deposits	70	250	+ 257
Notes in circulation	142	600	+ 322

erably below the level maintained under German occupation. It was claimed that the wartime rise in the note circulation and bank deposits combined, was not any greater than in the United States and that the French public debt percentage-wise increased less than the American debt. Consequently the argument went that once a better distribution of goods, reported fairly plentiful in some parts of France, were established, the pressure of money on the supplies of goods would be relieved. Then the prices would decline and the considerable difference between the French price level, resulting from the fixing of the official franc rate at 50 per dollar, and the external price level would be reduced.

There was some justification for thinking that the blocking of purchasing power—as Belgium did—would not be necessary to bring the prices down and that the expansion of the supply of goods would do the trick alone. As it turned out, the damage to the French productive plant and equipment was less than had been expected. Between 75 and 80 per cent of the industrial capacity was intact. Textile and chemical industries, various consumers' goods industries, and the rubber industry had only about 10 per cent of their plant capacity affected by the war, although in some cases equipment suffered from neglect. A considerable number of plants (among them several American owned) that worked on German war orders, have been actually enlarged and modernized.

Even less than industry was French agriculture affected by the war, except in the sections where prolonged fighting took place. Hence the recuperative potential of France—a naturally rich country, with well balanced production and hard-working, thrifty people—is great and considerable recovery should by now have been achieved, even if only her own resources had been used. That the accomplishments at the time of this writing have fallen below expectation has been due to a number of obstacles. The most important were the transport situation, the shortage of coal, raw materials and labor, and the uncertainty arising from social and political reforms.

In contrast with industries, French transport facilities were badly damaged by the war. Thousands of miles of railway track were destroyed. Only about one-half of France's 16,000 locomotives could be used or repaired. The number of freight cars and motor trucks left in the country dropped to about one-third of the prewar stock. The merchant fleet tonnage dwindled to about 850,000 gross tons from the

2,900,000 before the war.

The transportation problem was attacked vigorously with the help of the Allied armies. Much of the railway right-of-way has already been repaired or rebuilt. Some transport equipment was brought in from this country and the harbor facilities were expanded to handle more than peacetime tonnages. By the end of April the transportation problem was pretty much solved, although the military still used a considerable proportion of the available facilities.

By that time the coal shortage had become the principal bottle-neck in the recovery. The cause was a disastrous fall in production which at present is at the annual rate of 25 to 30 million tons, as compared with about 42 million tons mined in 1943 and in 1938. The normal French coal requirements, which had to be made up by imports, were between 70 and 80 million tons before the war.

After providing for transport and military uses, there has been little left for industries or home consumption. The reason for the decline has been the low productivity of miners, resulting from the lack of proper food and absenteeism, and shortage of labor in general. Efforts are being made to expand the production by the employment of returned French workers and of prisoners of war. France will probably also get some coal from the Saar and Ruhr areas, but the available manpower there, too, is but a fraction of the prewar or wartime employment.

Although France has had ample funds abroad (besides several hundred millions in dollar and pound sterling credits, the Bank of France gold reserve is equivalent to about \$1¾ billion), the procurement of raw materials from overseas has been disappointingly small during most of the first ten months of the rehabilitation phase. Not only have the available raw materials had to be apportioned among the Allies, but there has been a shortage of shipping for bringing them and of harbor facilities for landing them. Some cotton, wool and synthetic rubber have been brought in, but part of the fin-

ished product is to go to the Allied (and French) armies rather than to civilians.

Agricultural production has failed to improve principally because of the scarcity of consumers' goods for farmers to buy. Not only did the farmers fail to exert themselves more than under the Germans, but they began to consume more of their own produce. The result was very disappointing collections of farm products, and extremely uneven distribution of food.

(Please turn to page 342)



Acme Photo

Happening in Washington

Charles Phelps Cushing Photo

By E. K. T.

PRODUCTION for war will decline more slowly than most imagine. For example war production in the first quarter of 1945 amounted to 14,500 million dollars and latest figure for the third quarter of the year is 13,800 million dollars, a total cutback of less than five per cent. Furthermore, war production—

Washington Sees:

Highly-placed Washington officials are urging the Surplus Property Board to look behind the language of the statute it is to administer and find the real purpose.

More than the sale of property to the highest bidder is involved, they point out; the items cannot be measured in terms of original cost to the government, but rather as assets to be counted in terms of the possible post-war uses to which they can be put in providing employment and economic opportunity. And since this value at the present time will in many cases be only a guess, they are proposing a period of experimentation and development. This is particularly true of new industries which have mushroomed during the war period, such as light metals, synthetic rubber and aircraft.

Sentiment is growing for a basic change in policy under which plants and facilities would be leased until the value can be determined in point of production and employment, to gauge their worth as a segment of private enterprise.

Under such a system, it is submitted, the government will be collecting rent and new private enterprises will have the opportunity to put the plants to their most effective use without the necessity of laying down a capital investment based to a large extent upon pure guess.

The Department of Justice is particularly interested in the establishment of price standards via that route.

the cost of military equipment—accounts for only 56 cents out of each dollar spent; the other 44 cents go for pay and subsistence, mustering out benefits, veterans.

IMPORTANT, if little publicized, step has been taken by War Manpower Commission by decentralizing to the extent of permitting area directors to determine whether a community shall be placed in a labor shortage or a labor surplus category. Solution of issues by persons who live with them will be the result; Washington will intervene only in rare instances, on appeals. Result will be greater ease in building up work forces in many cities where hands are available and needed but ceilings limit the number who can be employed in a "scarcity area."

THREAT of bread rationing is expected to be overcome by new regulations effective July 1. Cash-paying foreign governments—Netherlands, Belgium, France—will be permitted to buy unallocated foods and wheat, but wheat flour will be conserved by placing it on the allocated list. This step by the War Food Administration will give the government a necessary control over flour requirements.

TRANSPORTATION in all its forms—rail, truck, air and water—is headed for the tightest period since the outbreak of the war. Some close to the subject predict a breakdown this summer; even before re-deployment and heavy movement to the West Coast really gets under way. Production cutbacks won't give much relief and trade can expect increasing delays at least until next fall.

OVERWORKED container manufacturing industry will have to put on added steam to meet the requirements of the next few months. Rolling mills will operate at record capacity in the third quarter of this year with only fraction of output going to the armed forces. Seasonal food packs will take the bulk. Receipts of pulpwood from Swedish suppliers will ease the industry in the final months of the year. Armament cutbacks will be a relieving factor but the extent cannot be gauged right now.

AS
WE
GO TO
PRESS

Active White House support for the Murray "full employment bill is on the way. Intensive campaign to sell the plan to the public will come first. Idea is that popular demand by mail will add the necessary strength to bolster the Administration's drive.

The bill is a statistician's delight: estimates would be made of number of persons who want work, number of jobs required to fill the need, the number private industry can provide, and the number the government must find to take in the slack.

If prospective needs of industry exceed the looked-for supply congress would put a ceiling level. But it's noteworthy that sections devoted to the situation where there are too many jobs are brief, those concerned with too few openings are voluminous.

Enactment would bring supreme test of efficiency and ability of public and private economists. Estimates would be required several months before congress takes up the problem of "business unemployed," several months would elapse before action. Thus, economists will be predicting the business situation from 10 to 22 months in advance.

Permanent price and wage control would be a practical necessity. Otherwise estimates could be far out of line. Possible solution would be elasticity which would allow revision from time to time.

Government agencies are being mobilized to prevent fraud, favoritism, racketeering, evasion of law and other abuses in surplus property disposal. Surplus Property Board will have its own policing organization, but that won't be all.

Interior Department will check on sales in territories and possessions; army's inspector general will watch surplus disposal overseas; Federal Trade Commission will prosecute cases of false or fraudulent advertising in connection with sales. Add to these the FBI, post office inspectors and treasury agents and an army of sleuths will be found.

Office of Price Administration again is placing stress upon asserted business profits. Bowles cites Department of Commerce data to show incomes have moved upward steadily in no-ceiling industries. Obvious purpose is to stave off fight against OPA continuance, broaden its scope if possible.

White House aides have been given assignment to draft new program against inflation. Investment, as opposed to speculation, may be re-defined with longer holding required to place a purchase in the former category. Down payment on homes may be fixed at 35 per cent. Realtor groups will fight it.

Current estimate is that Veterans Administration will be dealing in post-war period with one-third of the population, directly or indirectly. That may revive the movement for cabinet status in VA. Congress thinks its control would be more complete under such arrangement.

Foreign trade circles in the Capital predict many small businesses will enter the field through the medium of export associations. Smaller firms in related lines could be efficiently and economically represented overseas, could compete with the larger corporations, is the explanation.

Embattled trade treaty negotiations continues to run into stiff opposition on the senate side of the Capitol after squeezing through the house side. Important development is the O'Mahoney demand for congressional veto power over trade agreements. It's been suggested before but not under such powerful sponsorship. O'Mahoney, for example, sparkplugged the fight against Supreme Court packing.

Cabinet changes are not completed by a long shot, if forecasts by Washington observers with good records of past performance mean anything. Stimson definitely will leave the War Department. He's aged, tired, and in failing health. Stettinius and Morgenthau still are on the doubtful seats.

Influx of surplus labor from Canada will come soon. Dominion government has relaxed its restrictions on workers who desire to leave that country to seek employment. Primary job market for Canadians has been the Michigan area but cutbacks there may send more job-hunters to New England.

Moribund Fair Employment Practice Committee is being eased to its doom by "efficient neglect." House appropriations committee didn't recommend funds to carry on FEPC after July 1 saying -- for the record -- there is legislation pending to make the agency permanent.

Well-known fact is that house rules committee, dominated by congressmen from southern states, will "take care of" the bill. There are many house members who don't take offense at this attenuation of their legislative rights. FEPC is too hot for comfort.

War financing has its bright spots. Since Pearl Harbor, 41 per cent of total government expenditures have come out of taxation; in World War I, the percentage was 29. Pre-war interest rate paid by government was 2.50 per cent; now, largely as result of level fixed for war bonds, it's 1.92 per cent.

Bond sales since the beginning have totaled \$45,508 millions; redemption rate is 14.27 per cent, which means the government still has more than 85 cents out of every war bond dollar that has been taken in.

Time saving suggestion by Office of Contract Settlement is early submission of prescribed forms (Regulation No. 18, Forms 5 and 5-a) by war contractors making offers to buy government-owned plant equipment, or desiring to have government remove such equipment from their factories.

Use of standard form and early transmission to Washington are recommended as aids to early reconversion. Processing of these applications would begin at once although physical removal of equipment would be postponed.

Presidential suggestion that \$25,000 annual salaries for congress members would not be out of line is traced to Truman's discovery that all is not gold in that \$75,000 salary provided for the White House incumbent.

Income taxes, federal and state, just about halve the "keep home pay." Food for the White House staff and for unofficial dinners and receptions come out of President's pay -- it ran to \$2,000 a month in the Roosevelt Administration. Actually, President Truman's net will be only slightly more than he had as a U.S. Senator.

Commerce Department's advisory committee on small business has proposed early start toward removal of tax burdens on business. The recommendations parallel those of congressional tax experts, lend strength to Senator George's move in that direction.

Where Common Stock Values Have Been Enhanced

—through Debt Reduction and Refunding

BY J. S. WILLIAMS

EARLY in June a routine announcement marking the ninth anniversary of unchanged call money rates at 1% attracted little attention. Small wonder that with a plethora of lendable funds pressing on the market for nearly a decade and swollen to huge proportions during three and a half years of war, almost forgotten are days of the previous decade when call money rates soared to 10% and 20%, when on the markets appeared new issues of high grade industrial bonds yielding 6% or more, preferred stocks with dividends set at 7% and even 8%, while nations like Argentina and Chile literally broke their financial backs by borrowing too freely of American money at an 8% rate.

In contrast to these former periods when money was tight, a progressively easier borrower's market has developed for the past ten years, resulting in marked benefits to common stockholders in many a railroad, public utility and industrial concern, by reduction of debts and of prior charges upon earnings.

Forced liquidation of loans and securities in the glum years of the early 1930s of course created a huge pool of idle funds, and to again whet the appetites of investors and institutions for new security issues was a slow and laborious process. Not until well in the Thirties was slowly returning confidence reflected in absorption of corporate security issues to any noticeable extent, and at that the trend was only modest. According to the Federal Reserve Bulletin, net proceeds from all classes of corporate securities issued in 1934 amounted to but \$384 million and of this sum, \$231 million was employed for the retirement of other securities, while to retire debt a meager \$84 million was used. These figures apply to all groups of borrowers, railroad, public utility and industrial, and the term "borrower" is used advisedly because no record of financing by preferred stock appears in 1934. Industrial issues, moreover, were very much in the minority, amounting in all to \$62 million, of which \$34 million involved the retirement of other securities and a mere trickle of \$2 million went to repay debts.

With the advent of 1935, along with rapidly improving economic conditions and with developing prospects of a declining trend in security yields, new financing leaped into its stride with totals for all corporate purposes climbing to over \$2.2 billion and doubling to a peak of \$4.4 billion in the prosperous year of 1936. While the railroads and public utilities accounted for a substantial majority of the new issues during this two year period, the industrials were not slow in making the most of their

opportunities, as indicated by issuance of \$1.3 billion net value of securities for retirement of higher yield issues and the application of \$130 million to reduce indebtedness. By thus reducing annual outlays for interest and preferred dividend payments, corresponding benefits have accrued to many common stocks through these measures alone, in addition to enhancement from similar applications of surplus earnings.

While the annual volume trend of industrial financing from 1936 to 1943 was irregularly downward, the sum total of debt retirement and reduction of charges against income impressively strengthened the position of common stockholders in many cases and during the latter part of 1944, a marked upward trend in volume of new securities has been a feature. During 1945 to date, no letup has appeared, as hardly a day passes without announcement of an important piece of industrial refunding of some kind. Tightly controlled money markets to assure Government financing at lowest yields and huge amounts of investable funds have forced yields of well rated securities down to the lowest level in history, thus presenting an alluring opportunity for innumerable successful concerns to improve fundamentals for their common stockholders along the lines discussed.

All told, a decade of industrial financing (through 1944) has resulted in the retirement of some \$4,227 million securities with an additional \$935 million used mainly for liquidation of indebtedness. It is interesting to realize that in many instances retirement of securities has involved repeated refunding of the same issues at progressively lower interest or dividend rates. Although considerable expense in the nature of redemption premiums, underwriting fees, legal charges and registration costs has attended these financial steps, it has been more than offset by "nailing down" the gain in interest savings until the maturity date of bonds or debentures, and for an indefinite period in the case of preferred stocks. This is an important advantage to the common stock position as the benefits won are not of temporary character; rather will they be reflected in improved earnings for many years to come. With a conservative estimate that annual savings of only 1% have been achieved by the above total financing mentioned, dollar-wise the figure would be \$42,270,000 per year, added to the earnings of the industrial concerns involved.

Just how attractive present money market conditions are to large and sound industrial companies may not be clear to all of our readers. The average yield of high grade corporate bonds hit an all-time

low of 2.90% up to April of this year, but this includes rails and public utilities along with the industrials. Moody's estimate for April 28 showed an average yield of 2.69% for 40 industrial bonds, 3.07% for a like number of rails and a relative yield of 2.94% for utilities. Industrial borrowers, it will be noted, enjoy an edge on the other two groups, reflecting their greatly improved financial position during years of wartime operation. Time was when the ranking was quite the reverse.

Current yields of the best grade preferred stocks would startle an old timer who had not kept posted on changing investment factors, for 3½% is now readily accepted by security buyers as a permanent return upon preferreds with high merit. Indeed, special cases point to even lower yields; Eastman Kodak non-callable 6% preferred, for example, is currently selling at about 198 to yield about 3%. If it were possible to redeem this latter issue from proceeds of a new issue, it may be clearly seen that a 3% saving in preferred dividend payments on some 61,000 shares of stock would improve earnings for the common by about \$180,000 a year.

Appended is a table listing a few of numerous important concerns which have been alive to the potentials of security refunding under currently favorable conditions. The list could have been extended many times over but will serve to highlight many of the points under discussion.

McKesson & Robbins happens to illustrate a progressively advantageous program of refinancing in recent years and warrants comment beyond that based upon the tabulated figures. When this concern was reorganized in 1942, \$15,275,000 5½% debentures were retired from the proceeds of \$13.7 million new 3½% debentures, the balance coming from new capital furnished by an issue of \$5.6 million 5¼% preferred stock. Improvement in the capital markets enabled the company only a year and half later to sell \$15 million of preferred stock with a 4% dividend rate, from proceeds of which it re-

tired all outstanding debentures at 107¼ and the old preferred stock at 109.50. The net result of these multiple financial steps has been that the common benefitted by reduction of prior charges to \$600,000 a year compared with \$763,000 at the start, as well as by the elimination of over \$15 million in funded debt. As the preferred stock is redeemable in whole or in part at a small premium, it is not impossible that ultimately still further gains may evolve for the common.

Holders of the common stock of Continental Baking Co. must have noted with great satisfaction this concern's recent refunding operation. For years past, 8% dividends on 241,500 shares of preferred stock, with arrears accumulating in some years, have proved a heavy burden upon earnings. While the earnings record of this concern does not warrant a very low yield on the preferred, substantial reduction of prior dividend charges will result in benefit to the common by the proposed issuance of about 253,000 shares of new 5½% preferred to replace the present issue. At the same time the company will issue \$16.5 million of 20 year 3% debentures to refund special loans amounting to over \$15 million now held by banks and insurance companies. The annual net saving in prior dividend charges alone will amount to \$537,000 while the debt refunding assures the company the use of \$16 million for the next two decades and at a very low rate.

Not all corporate refunding operations result in such obvious benefits to common shareholders as just described. But while current exceedingly low money rates may continue for many years to come, unpredictable conditions in the future may once more bring about an upward trend. Through long-term financing at current interest levels and debt reduction regardless of savings in interest or preferred dividends, many concerns are putting their finances into the strongest possible shape structurally, steps which of course strengthen fundamentals for the common stock.

Bankers have just underwritten \$25 million 2¾% debentures due in 1970 and 250,000 shares of \$3.75 preferred stock of Union Oil Co. of California, highlighting conservative policies which in a sense provide insurance of a continued sound position for the common stock rather than high percentage gains in earnings margins. Proceeds from this financing will be used to retire \$25.6 million outstanding 3% debentures due 1959 at 103½, as well as \$12 million 2% promissory notes which had been issued as part payment for new properties. While the major part of this rather expensive financing in-

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Annual Savings Through Refunding or Debt Reduction

New Issue*	Redemed Issue*	Estimated Annual Savings
Marshall Field 150,000 4¼% cu. pfd.	150,000 6% pfd.	\$262,500
Godchaux Sugar 29,370 \$4.50 cu. pr. pfd.	26,700 \$7 pfd.	54,735
Hinde & Dauch 35,900 \$4 cu. cv. pfd.	35,900 \$5 cu. cv. pfd.	35,900
APW Prod. \$2 mill 1st mtgs. f. 5-'65	\$2 mill. 1st mtgs. f. 6-'48	20,000
Certainteed 16,713 4½% cu. pr. pfd.	16,713 6% cum. pr. pfd.	25,070
Colgate Pal-Peet 125,000 \$3.50 pfd.	125,000 \$4.25 pfd.	93,750
Elliott Co. 40,000 \$50 par 5% cum. pfd.	40,000 5½% cu. cv. pfd., \$50 par	10,000
Hercules Powd. To reduce div. rate on 87,488 pfd.	from 6% to 5%	87,488
Tide Water As. Oil. 300,000 \$3.75 cu. pfd.	300,000 \$4.50 cu. cv. pfd.	225,000
Thompson Prod. 60,000 4% cu. pfd.	45,000 5% pfd. + redmp. of \$900,000 notes	21,000
York Corp. \$4.4 mill. 1st mtgs. f. of 3¼-'60	\$4.450 mill. 1st mtgs. f. 4¼-'58	46,125
Sterling Drug 202,650 \$4.50 cu. pfd.	193,000 \$6 pfd.	246,075
Gimbel Bros. 125,000 3½% cum. pfd.	To retire \$9.5 mill. bank loan	
Conte Baking 253,575 \$5.50 cum. pfd.	241,500 \$8 pfd.	\$37,338
Thermoid \$16.5 mill. deb. 3-'65	To retire \$15.175 mill. bank & ins. loans	
Thermoid Co. 30,867 \$2.50 pfd.	30,867 \$3.00 pfd.	15,433
McKesson & Rob. 150,000 \$4 cum. pfd.	\$12.1 mill. s.f. debts. 3½-'56 + 56,000 5¼% cu. pfd.	117,500
Warner Bros. Ne New Issue, Redemmed at \$89.65	99,397 \$3.85 pfd.	382,678

*Number of shares unless otherwise indicated

Retail Trade Outlook for the Period Ahead

BY H. F. TRAVIS

THE persistence of the war-period rise in the dollar volume of retail trade has confounded many prophets. A year ago some thought the peak was in sight, on the reasoning that the merchants simply could not get enough goods to permit further sales expansion. Maybe they couldn't—but they did.

The early months of this year found the cash registers ringing up new records. So what, said the Jeremiahs. Probably it was the last fling. Look out for a slump after V-E Day, when war-plant workers would be chilled by the specter of approaching unemployment. Now V-E Day is some weeks behind us and trade is still thriving.

But, of course, the readjustment to a one-war basis has scarcely more than begun; and the scattered plant lay-offs do not yet foot up to significant unemployment. At best, by the end of this year there probably will have been a decline of around \$25 billion in the annual rate of national income. At the economic low-point of the reconversion period—the timing of which is presently unpredictable—it will be more than that. Is it not inevitable, then, that there is a trade slump, and a big one, ahead? If so, what about the effects on merchandising company profits and the market values of their shares?

On the first question—how much slump—no unqualified answer is possible. Much depends on that intangible thing called "public psychology." So far as this writer can see, the average person is not now scared of the economic readjustment which everybody has long known was coming. It is possible that a fear-fed deflation spiral could develop as—and if—the manifestations of serious unemployment become visible to all. Possible, yes; especially if an unexpectedly early end of the Jap war should bring the whole reconversion problem into sudden focus. But is it probable? The writer doubts it.

To begin with, everybody knows that such part



Underwood-Strattan

of present employment and national income as rests wholly on production for war is abnormal and temporary. It is hard to believe that its fully foreseen tapering off and eventual elimination are likely to bring the let-down in national confidence typical of an economic nose-dive in peacetime.

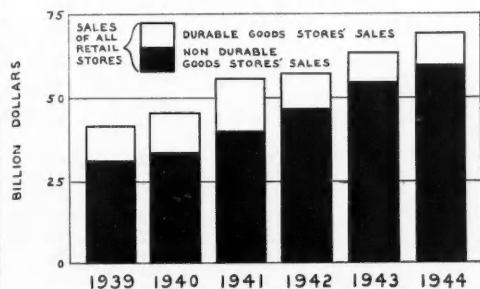
Second, those now holding war jobs constitute, after all, a not very large minority of the gainfully occupied. A sizeable percentage of them, possibly some 5 million, are people who would not normally be employed at all and who will simply "disappear" from the labor force. A goodly number of others will shift back to previous occupations in fields now starved for labor. These changes will not take place all at once, but over a period of months. Hence, pessimistic "estimates" that unemployment at some given time during the reconversion period will be as much as 6 million to 10 million persons appear of questionable validity.

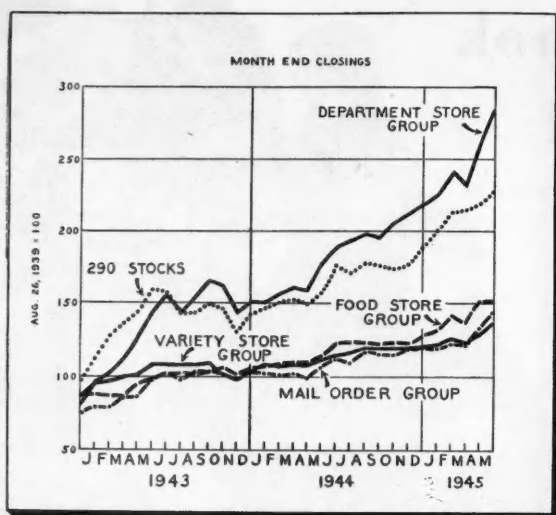
Among the industries of peacetime importance, there is a formidable reconversion problem only in the automotive field. It should take but a moment's reflection to realize that elsewhere, relatively few industries require substantial physical reconversion. With them, it is solely a question of prospective demand, which we shall come to later.

Never have our people put by so much financial fat—for the rainy day—as during recent years. And never before have we had such extensive supports to consumer purchasing power as are represented by unemployment insurance, old age pensions, benefits for discharged service men and women, Government-supported farm prices, etc. These are supporting factors for retail trade, the backbone of which always consists of genuinely needed goods, rather than of luxuries and "frills".

Now let's revert for a moment to the matter of the national income and its relation to retail trade.

WAR-TIME RECORD OF RETAIL STORES





Monthly income payments are now at an annual rate of about \$162 billion. But consumer spending for goods and services is at a rate of less than \$95 billion a year. The balance is going into taxes and savings, and far more in savings than in tax payments. In other words, retail trade, however expanded since pre-war, is not expanded in normal ratio to national income. Therefore, regardless of the uneven effects upon individuals, any reduction in total consumer income for the foreseeable future will be much more at the expense of the savings rate than of the spending rate. The savings rate, it should be emphasized, is far more abnormal than the present spending rate.

Obviously, "surplus" income which is not spent can not influence retail trade. At a normal savings rate, and with individual tax payments only moderately lower than now—lower because of reduced income—a national income \$30 billion to \$40 billion less per year than current income would support a volume of retail trade not significantly, if any, lower than now, provided the consuming public spends with reasonably normal confidence.

If it be assumed that the present volume of trade is abnormal because it is greater than in the past, a pertinent question is: abnormal by how much? By what percentage? That is not an easy question to answer, but perhaps we can throw some light on it. First, in comparison with the pre-war year 1939, it must be remembered that prices have advanced very consid-

erably. Average department store prices are up about 27 per cent. Retail food prices—and food is the biggest single item in trade—are up over 43 per cent. Clothing, another huge trade item, is up about 99 per cent. To the extent that prices rise, it means more dollar volume of trade, but it does not mean that much more consumer demand.

In the case of chain grocers, reasonably typical of food retailing, dollar volume is about 65 per cent over 1939, but it is easy to see that the price rise of 43 per cent accounts for about two-thirds of the apparent expansion. Mail order company sales, despite shortages of hard goods, are up about 70 per cent from the 1939 average; but, using the only available price index, the gain in physical volume is only 35 per cent. Department store sales, in dollars, are up about 90 per cent. But the gain in physical volume is about half that.

Except in the case of food sales, the writer is not too sure of the accuracy of these adjustments. A reliable measure of average prices of general merchandise would have to be weighted for differences in volume of the various items. For instance, in adjusting dollar sales figures for price rise, it would be absurd to average the price of bird cages, which sell in small volume, with the price of women's dresses, which sell in huge volume. Shopping for clothing, housefurnishings and sundries, it will be hard for most housewives to believe that their department stores purchases cost only 27 per cent more than in 1939.

Statistics on Earnings and Taxes

	SHARE EARNINGS			*1944 Tax Rate
	Average 1936-39	Highest 1936-39	1944	
DEPARTMENT STORES, GENERAL MERCHANDISE AND APPAREL:				
Allied Stores	\$1.04	\$1.34	\$3.42	70%
Best & Co.	3.75	4.21	3.72	74
Federated Dept. Stores	2.74	3.10	3.50	72
Gimbel Bros.	0.68	2.08	3.07	78
Kaufmann Dept. Stores	1.73	2.14	2.08	74
Lerner Stores	†1.35	†1.73	†1.62	74
Macy (R. H.) & Co.	2.34	3.06	2.49	66
Marshall Field	0.74	1.92	1.60	78
Penney (J. C.)	6.44	7.36	6.52	70
MAIL ORDER:				
Chicago Mail Order	1.48	2.86	2.04	64
Montgomery Ward	3.86	4.91	3.81	56
Sears, Roebuck	5.49	6.60	5.83	67
VARIETY CHAINS:				
Kresge (S. S.)	1.87	1.99	1.64	68
Kress (S. H.) & Co.	1.98	2.31	2.25	71
McCrory Stores	1.87	2.16	1.90	73
Murphy (G. C.) Co.	5.75	6.47	4.96	76
Neisner Bros.	3.36	5.09	4.22	67
Woolworth (F. W.)	3.19	3.42	2.35	53
GROCERY CHAINS				
American Stores	0.90	1.57	1.41	70
Jewel Tea	†2.79	†3.20	†2.12	45
Kroger Grocery	2.14	3.01	2.80	65
Safeway Stores	†1.44	†2.20	†1.63	49
SHOE CHAINS:				
Kinney (G. R.)	Def.	Def.	0.73	63
Melville Shoe	†2.28	2.88	1.72	43
DRUG STORE CHAINS:				
Cunningham Drug Stores	2.72	3.05	2.93	73
Peoples Drug Stores	2.05	2.52	2.32	65
Walgreen Co.	1.76	2.03	2.25	64

*—Federal Income and Excess Profits Tax as Percentage of Pre-Tax Net.

†—Adjusted for Stock Splits.

In any event, a major part of the great rise in retail sales since 1939 is merely price increase. Since we are concerned with a possible trade slump, the question arises: Will prices decline? If so, that would automatically produce a slump in dollar sales even if consumer demand remained constant. Well, prices may eventually decline; but it looks like quite a long-term matter. There is little reason to expect appreciable decline, if any, over the next year or two. In fact, it is questionable whether retail prices have seen their peak.

Next, in using 1939, or any other year of the 1930's, for comparison, we are using a sub-normal base. After the 1929-1932 depression and prior to the war stimulus, this country never got back more than briefly even to the normal long-term trend line of economic activity, much less above it. The national income *per capita* in 1939 was more than 15 per cent under the average of 1923-1929.

So part, and no small part either, of the trade rise since 1939 can be considered recovery, rather than expansion. In this connection, it may be noted that 1939 is now five and one-half years behind us, which means a considerable population growth and, other things being equal, a proportionate growth in the consumer needs that trade must serve.

For many years prior to the war the "trend lines" of department store sales and of combined wage and salary payments were virtually identical. They began to part company in 1941, with employee re-

muneration progressively outrunning store sales, and with the discrepancy chiefly accounted for by savings. One would need only glance at a chart of these lines to realize that there is a large element of exaggeration in Labor's contention that take-home pay must be kept near present levels if trade, and general business, are not to nose-dive into a depression. As pointed out earlier in this article, under a normal ratio of consumer spending to consumer income, income could decline by even as much as \$40 billion a year from the present level and still be enough to finance approximately the present dollar volume of trade.

This writer doubts that national income will slump \$40 billion. Without price deflation, which seems out of the picture for the period with which this article is concerned, a major part of the war-time increase in national income can be considered a "fixture." If we retain, say, \$120 billion of the present \$162 billion income, that would be a smaller percentage increase over pre-war than was attained after the First World War, on a similar basis of comparison. Economists who believe that is probable are not merely dreaming.

Now, what about consumer demand? Many of the most important types of consumer goods are scarce and continue to wear out faster than they can be replaced. The point need not be elaborated. Just think for a moment of the great variety of familiar and essential

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Statistics on Sales and Profit Margins

	LATEST YEAR		PREVIOUS YEAR		*BEST PREVIOUS YEAR		1936-39 AVGE. Margin
	(a)Sales	(b)Margin	(a)Sales	(b)Margin	(a)Sales	(b)Margin	
DEPARTMENT STORES, GENERAL MERCHANDISE AND APPAREL:							
Allied Stores	\$241.9	9.6%	\$203.7	9.6%	\$112.1	3.7%	3.4%
Best & Co.	29.3	14.8	25.7	15.2	16.2	9.2	8.9
Federated Department Stores.....	170.9	8.3	155.3	7.8	110.1	3.9	3.5
Gimbel Bros.	194.5	9.6	164.3	9.0	100.1	3.0	2.5
Kaufmann Dept. Stores.....	39.0	12.4	35.5	6.6	27.4	7.3	6.5
Lerner Stores	87.3	9.0	75.6	9.5	40.5	4.7	5.6
Macy (R. H.) & Co.....	184.8	6.9	165.6	6.8	135.8	3.7	3.5
Marshall Field	148.3	12.1	134.9	11.2	104.2	3.0	2.9
Penney (J. C.).....	535.4	10.8	489.9	10.7	282.1	7.0	7.3
MAIL ORDER:							
Chicago Mail Order.....	42.2	5.0	36.5	4.5	27.1	4.4	2.6
Montgomery Ward	663.5	7.4	595.9	5.5	474.9	7.2	6.5
Sears, Roebuck	988.8	10.5	852.6	10.1	617.4	7.7	7.1
VARIETY CHAINS:							
Kresge (S. S.)	216.4	13.2	206.0	11.6	155.2	8.9	8.4
Kress (S. H.) & Co.....	127.9	15.6	124.0	13.8	87.9	8.3	7.3
McCrary Stores	71.3	11.5	67.4	9.5	43.2	6.0	5.7
Murphy (G. C.) Co.....	88.9	12.8	82.0	11.7	47.3	8.7	8.5
Neisner Bros.	38.2	8.1	37.3	5.9	22.6	3.7	4.8
Woolworth (F. W.).....	459.8	10.0	439.0	9.1	318.8	7.8	8.8
GROCERY CHAINS:							
American Stores	227.6	2.8	212.1	2.1	114.8	1.2	1.2
Jewel Tea	58.3	4.3	53.1	3.3	24.8	7.6	8.1
Kroger Grocery	448.4	3.4	422.4	2.9	248.4	1.2	1.9
Safeway Stores	656.6	1.6	588.8	1.4	385.9	2.1	1.4
SHOE CHAINS:							
Kinney (G. R.)	26.0	5.2	24.4	6.3	15.7	1.5	1.7
Melville Shoe	54.3	7.2	51.6	9.1	40.9	9.5	7.5
DRUG STORE CHAINS:							
Cunningham Drug Stores.....	20.5	10.4	18.9	10.8	9.6	7.5	8.9
Peoples Drug Stores.....	34.7	9.5	34.8	8.8	22.8	5.5	5.9
Walgreen Co.	120.0	7.8	112.2	8.3	70.8	4.8	4.7

(a)—In Millions. (b)—Pre-tax earnings as percentage of sales.

*—Of period 1936-39.

Opportunities In Convertible Preferreds

BY EDWIN A. BARNES

ASK the average investor which of the three factors—safety, income or growth—he considers most essential to his program and in most cases the optimistic reply is "All three". In actual practice, however, it is found necessary to compromise such broad objectives as a rule, for to obtain reasonable assurance of any one of them is no easy matter. And when it comes to triple considerations, the need for sacrifice of some fundamental invariably looms up.

Perhaps the nearest approach to a possible solution of this problem may be discovered in studying the potentials of an often overlooked class of investments—convertible preferred stocks. Relatively speaking, these naturally enjoy a stronger measure of safety than their junior equities, and their dividends usually are cumulative, with first call upon a frequently wide margin of net earnings. While factors of safety and assured income alone have pushed prices up and yields downward on most of the convertible preferred stocks available, an income rate ranging from 3.2% to over 5% on many of these issues provides considerable latitude for a satisfactory choice in these days of universally low returns.

Judged by the foregoing standards only, opportunities for potential price appreciation in good preferred stocks would seem almost visionary, were it not for their convertible privileges which in varying degree may enhance their market value for causes which entirely transcend all considerations of book value or yield. If unusual prosperity or speculative activity whirls the prices of their respective common shares above a given level, price enhancement of the preferred stock convertible into these equities automatically follows, limited in extent only by the

terms of the conversion agreement. Preferred stocks in this special category therefore enjoy definite speculative potentials which in no way detract from their inherent investment characteristics, and their holders are under no obligation to convert unless they so desire; if substantial paper profits materialize, they may be realized by sale of the stock or disregarded for continuation of stable income as the investor may determine for himself.

To select a desirable preferred stock with conversion privileges is no simple matter, as more than the usual number of determinant factors must be studied. Apart from fundamental considerations of the industry and company involved, including an appraisal of earnings, assets and growth potentials, an investor must understand the sometimes complicated terms of conversion with their bearing upon the current price levels of the preferred and common stocks. Relative par values of these two issues is an important matter, as is the redemption price of the preferred as both of these details must be taken into consideration for an intelligent comprehension of investment opportunities in this interesting field. Appended will be found a table listing a number of convertible preferred stocks, their current prices along with those of the equities into which they are convertible, and a brief summary of the conversion terms. While all of these companies have a varying degree of investment merit and their growth potentials differ greatly, an attempt has been made to include only issues already achieving conversion status or with reasonable prospects of attaining it in the not too distant future.

Illustrating one example of a convertible preferred issue already benefitting from a rise in price of the common stock is Allis Chalmers 4% cumulative pre-

Convertible Preferreds

	Current Price of Pref.	Yield	Current Price of Common	Conversion terms*	Redemption Price of Pfd.
Allis Chalmers Cu. 4%	122	3.2%	48 1/2	\$40 till '54; then \$50	104
Amer. Chain & Cab. 5%	116	4.2	30 3/8	\$26 2/3 till 9/15/46	105
Atlantic Ref'g A 4%	111	3.6	33	\$45	105
Atlas Powder 5%	118	4.2	73 3/4	1-1/3 shares	110
Bond Stores 5%	134	3.7	56 1/2	\$42	110 1/2 till '47; then 108
Canada Dry \$4.25	115	3.6	34 1/2	2 1/2 shares till '49; 2.22 shares till '54	105-'49; 102 1/2-'54; 100
Chicago Pneum. T \$2.50	51	4.9	25 3/4	1-2/3 shares	55 till '47; 52.50
Collins & Aik. 5%	110	4.5	44	1-2/3 shares	110
Consol. Vultee \$1.25	28	4.5	23 1/8	1-1/8 shares	27.50
Consol'n Coal \$2.50	53	4.9	23 5/8	\$25 till '53	52 1/2-'46; 51 1/4-'49; 50
Crane Co. \$5.	105	4.8	34 1/8	1 3/4 shares till '47; then 1 1/2 share	105
Dixie Cup A \$2.50	48	5.2	27 7/8	1 share	45
Freuhauf Tr. 4 1/2%	122	3.6	52 7/8	\$44	108-'47; then 105 1/2
Gaylord Container	64	4.3	29	\$25	52.50
Glidden Co. 2.25	52	4.1	31 5/8	7/10 share	52.50

*Expressed in price of common or number of shares of common

ferred, of which 296,015 shares were sold by the company in March, 1944. Until 1954, holders of this stock are entitled to exchange it into common at \$40 per share, that is they may receive $2\frac{1}{2}$ shares of common for the \$100 par-value preferred stock. $2\frac{1}{2}$ shares of common at present price of 48 $\frac{1}{2}$ are worth \$121.25 and reflecting this figure, the convertible preferred is selling at 122, to yield 3.2%. If during the next nine years the price of the common should equal its 1937 high of 83 $\frac{1}{2}$ a corresponding value accruing to the preferred would be \$208.75 as a matter of simple arithmetic, but of course not based on any prediction that the common will soar to this extent. The main point to be noted is that any appreciable rise in the price of the common above the current level must push up the price of the senior issue in accord with the terms of conversion.

While the above statements are factual, caution here enters the picture by calling attention to the redemption price of the preferred which is set at 104 plus accrued dividends, effective at any time upon 30 days notice. As long as the common does not decline below its current price, holders of the preferred could always elect to exchange for the common rather than to take a loss upon their stock by accepting cash in the event of redemption. On the other hand, if the price of the common should decline to its 1937 low of 34 at the time when the preferred is redeemed, the value of $2\frac{1}{2}$ shares would be only 85, leaving holders of the senior issue no alternative but to accept the \$104 price. At the current price of 122 for the preferred, an investor must gamble to the extent of 18 points that he will not get caught out on a limb as described, or that promising postwar prospects for Allis Chalmers warrant optimism that the common equity will further appreciate in price during the next nine years. The latter just now appears the greater probability.

Offsetting these speculative aspects is the relatively light exposure to risk of the capital invested in a fair quality preferred stock such as that under discussion. Net earnings of Allis Chalmers in 1944 amounted to \$31.51 per preferred share and during the last nine years have always been at least double the annual dividend requirements. The company has no funded debt or other senior issue. For several years in the earlier 1930s, to be sure, a de-

ficit occurred but the preferred dividends are cumulative. A further protection to the issue is a provision that if the common shares are diluted by issuance of additional shares for any reason, the conversion terms will automatically change to preserve the interests of the preferred holder. The yield of 3.2% of course is rather low, but offset by comparative price stability even if the common should importantly decline. Investment characteristics are bound to cushion any possible decline in the price of the preferred but its appreciation is wholly dependent upon upward swings in the price of the common.

For investors insisting upon safety and a more attractive yield than the above issue affords, but with less immediately clear potentials for profit through exchange into common, consideration of Reynolds Metals Co. 5 $\frac{1}{2}$ % convertible preferred stock may prove interesting. Currently this issue is selling at about 104 to yield 5.2% and the common is around 21 $\frac{3}{8}$. The preferred is redeemable at 107 and accrued dividends, and up to the date of retirement is convertible into 3.0948 shares of common. Thus to equal 104 the common would have to sell at about 33 $\frac{1}{2}$, or 12 $\frac{1}{8}$ points above its present level. In effect, therefore, a holder of the convertible preferred is assured of a 3 point profit in the event his stock is redeemed and if it is not so retired, his convertible privilege remains in full effect. In 1937, the common sold as high as 30 $\frac{3}{8}$ at which time the preferred kept a jump ahead by selling at 112. Regular dividends have always been paid on the preferred since its issuance in 1935 and were earned more than ten times over in 1944. War business to be sure, has tremendously swollen the company's volume and to expand facilities some \$30 million of bonds were sold which rank senior to the preferred. But Reynold's financial position is a strong one and its progress reflects a dynamic management, now confidently committed to an ambitious postwar program to expand civilian demand for aluminum and magnesium. To enjoy a fairly well assured yield of better than 5% with not too hazy prospects of speculative profits in due course seems to be the opportunity inherent in this cumulative convertible stock. The yield on the obviously less safe common is only 3.6%.

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Convertible Preferreds

	Current Price of Pref.	Yield	Current Price of Common	Conversion terms*	Redemption Price of Pfd.
Hershey Chocolate	125	3.2	80	1 share	Non Callable
Houdaille-Hersh. A 2.50	47	6.0	22 $\frac{1}{2}$	1 share till '53	45 till '53
Intl. Paper \$5	97	5.2	28 $\frac{3}{4}$	2 $\frac{1}{2}$ shares or \$40	105
Mengel Co. 5%	60	4.2	18 $\frac{3}{4}$	3 shares	55
Minn-Honeywell B 4%	109	3.6	45	\$75 adjusted	105
McLellan Stores 5%	112	4.5	18 $\frac{3}{4}$	4 shares	110
National Gypsum 4 $\frac{1}{2}$ %	105	4.2	17 $\frac{3}{4}$	\$24.44 to Nov. '45	103
Oliver Corp. 4.50	111	4.0	29	3 shares	104
Paraffine Cos. 4	108	3.6	72	1 share	105
Reynolds Metals 5.50	104	5.2	21 $\frac{3}{8}$	3 shares	107 $\frac{1}{2}$
Spiegel 4 $\frac{1}{2}$	89	4.7	16 $\frac{3}{4}$	2 $\frac{1}{2}$ shares till 3/47	105 till '47; 102.50
Twent. Cent. Fox \$1.50	37	4.0	29 $\frac{1}{2}$	1 $\frac{1}{4}$ shares	35
United Airlines 4 $\frac{1}{2}$	125	3.6	38 $\frac{1}{2}$	\$30 till '54	107 $\frac{1}{2}$ -1/46; 105-'54; 102 $\frac{1}{2}$
United Aircraft 5	110	4.5	28 $\frac{3}{8}$	\$40 till '52	105 till '52; then 102 $\frac{1}{2}$
Worthington Pump 4 $\frac{1}{2}$	86	5.1	55	1 share	100

*Expressed in price of common or number of shares of common

WHERE TAX REDUCTIONS WOULD MEAN SHARPLY INCREASED EARNINGS

BY FRANK R. WALTERS

NUMBER one of many current suggestions designed to fortify and stimulate business during the reconversion period is alleviation of tax burdens. In fact this proposal has received such unanimous approval from politicians and the public alike that it may be said to have passed into the "must" stage in principle, although final definition must await a clear insight of Treasury needs to complete the defeat of Japan, thus making any form of tax relief unlikely until the conclusion of hostilities.

To clarify both amount and timing of any such measure therefore will involve considerable delay, and before the Internal Revenue Department can ease up on its tax collections, potential pruning of all Government expenses must be carefully weighed before budgetary requirements can be finally ascertained. On one point, however, all hands seem to agree thoroughly: Primary tax relief to corporations, when it does become possible, will probably reduce or eliminate the Excess Profits Tax, with corresponding benefit to many stockholders.

One of the wisest and most generally approved measures to bolster Government revenues for war purposes has been the 1940 Act which established EPT. Originally created to raise additional funds for defense more than a year before Pearl Harbor, it has without alteration continued to support effectively the over-all Federal program to finance the hugely expanded military expenses as the global war unfolded.

To what extent this special emergency tax has siphoned wartime corporate profits into the Federal Treasury may be visualized by a few figures; total receipts from EPT for the Government's fiscal year ending in 1941 were a modest \$164 million, progressively expanding, as war production got into its stride, to \$1,618 million in 1942—\$5,063 million in 1943—\$9,345 million in 1944 and for the first nine months of the fiscal year ending June 30, 1945, to \$8,370 million. Almost up to date, accordingly, collections of Excess Profits taxes have amounted in all to about \$14.56 billion or 33.9% of \$42.94 billion total corporate taxes of all kinds levied since the passage of the Act in 1940. During the same period, internal revenue receipts from all sources are reported as \$117.05 billion of which 12.2% were derived from EPT taxes on corporations.

Conceived and implemented as a wartime measure to provide essential revenue and superimposed upon normal and surtaxes already absorbing about 40% of corporate earnings, it appears only natural that Excess Profits taxes should be marked for discard at the earliest date after the Japanese fold up, or at least be greatly reduced with an inevitable sharp

cut in outlay for military purposes. While the necessity for their temporary imposition has been obvious, EPT taxes have created a serious burden upon the operations of innumerable enterprises whose welfare is a major objective in all postwar planning to sustain a high level of national income.

How congressional approval of all practical measures to loosen up working capital for industry and to encourage new investment appears likely to result in imminent legislation to alter some present handicaps of EPT, was discussed in a recent number of the Magazine. Such activities, focused as they are at EPT, indicate that the Government is alive to further and more radical adjustments in this heavy tax, and that when it does become practical to define them, no yardstick of corporate size will be employed, although exemption from EPT in the lower brackets may continue to be stepped up gradually until the end of the war. Recommendations of the congressional committee definitely point to over-all revision of the tax to bolster postwar industrial courage and freer flow of venture capital into private enterprise.

Too early elimination of EPT would prove no boon to many concerns during the difficult period of transition, already at hand in many cases, because of the tax cushion and the postwar credits which it now provides. Drastic declines in net earnings or even deficits are bound to mark the nearer-term operations of some concerns during their readjust-

EPT and 1944 Net Earnings, per Share

	1944 Net	EPT	Net before EPT	Net if EPT rate is halved
Lee Tire & Rubber.....	\$5.38	\$12.98	\$18.36	\$11.87
Amer. Tob. (B & common)....	3.74	2.03	5.77	4.75
Consol. Cigar	3.97	8.81	12.78	8.37
Liggett & Myers (B & com.)..	4.25	2.46	6.71	5.48
Kimberly Clark	3.09	4.07	7.16	5.12
Lily Tulip Cup.....	3.20	6.10	9.30	6.25
Sutherland Paper	2.47	4.40	6.87	4.67
Amer. Enka	3.97	7.60	11.57	7.77
Bond Stores	4.12	9.00	13.12	8.62
Celanese	2.86	5.51	8.37	5.61
Manhattan Shirt	2.45	3.03	5.48	3.96
No. Amer. Rayon (A & B)...	3.00	2.91	5.91	4.45
Pacific Mills	4.72	22.02	26.74	15.73
Amer. Viscose	1.61	6.66	8.27	4.94
Chicago Mail Order.....	1.85	3.58	5.43	3.64
Montgomery Ward	3.81	2.84	6.65	5.23
Sears Roebuck	5.83	9.88	15.61	10.77
Penney, J. C.	6.25	12.79	19.04	12.65
National Distillers	\$4.31	\$ 9.96	\$14.27	\$ 9.29
Brewing Corp. of America....	5.30	9.41	14.71	10.00

ments to civilian production, and to such as these the "carry-back" provisions of the tax law would be of decided benefit. On the other hand there are certain groups of industry with negligible problems of reconversion and with current production already adapted to or adjustable to meet civilian needs, and to stockholders of concerns in this category relief from EPT cannot come too soon. Where such companies have established a good record of wartime earnings and are now in the high tax bracket, any savings in tax expenditures will of course widen margins for dividend distributions, although to just what extent will depend upon how well volume will be sustained with the advent of peace, and the amount of tax relief.

On the assumption that postwar conditions throughout the nation will warrant a continuation of volume equal to the 1944 level achieved by producers or distributors of items for civilian consumption, the appended table lists a few of many such concerns to show the potential gains in net earnings which might occur if EPT were wholly eliminated or if this tax were reduced only 50%. As other variable and unpredictable factors such as costs and prices would directly affect profit margins, the table must be studied with corresponding reservations, for 1944 net earnings could prove to be an unreliable index to apply to future years.

The liquor industry, for example, fits in rather well as one likely to slide right along from war into peace with few interruptions of normal procedure. Large reserve stocks in bonded warehouses have helped sustain substantial sales to the public during the last three or four years, and diversion of distillery operations to meet heavy military demand for alcohol is of a temporary nature only, involving no major adjustments of facilities. When the soldiers return and the public relaxes from the strain of war, liquor sales are not likely to decline very much; peacetime sales, while probably below wartime peaks, are likely to run fairly high at least for the duration of the postwar prosperity cycle. Based upon 1944 earnings, an elimination of EPT would more than triple net earnings for National

Distillers Corporation, raising net per share from \$4.31 as reported to a theoretical \$14.27. And if EPT were to be reduced only 50%, earnings would be nearly doubled to \$9.29. Brewing Corporation of America would show comparable gains per share of \$9.41 or \$4.70 on 1944 net per share of \$5.30. Release from the impact of EPT would produce almost spectacular improvement in the net of Schenley Distillers, the 1944 tax of this definition having equalled \$27.14 per share, leaving only \$7.66 for final net. On a basis of a 50% reduction in EPT net per share would have advanced to \$21.23.

Other Examples

Producers of food products, also, should experience little difficulty in sustaining volume at continued satisfactory levels during the transition period and probably for several years thereafter. Reconversion problems are nil for concerns in this industry, with the exception of a few specially packaged items fit only for military use. Rising costs and price controls may somewhat temper prospective advantages to be gained by postwar tax relief in this group, but a breakdown of their 1944 tax payments illustrates the importance of EPT in the picture. EPT last year cut net earnings of Penick & Ford from \$7.52 down to \$3.50 per share, and if this tax were reduced by 50%, \$5.51 would have been earned, quite a difference from the viewpoint of the stockholder. Corn Products appears on our list although 1944 EPT amounted to only 14 cents per share. In this instance comparison with 1943 earnings might be more enlightening, as EPT in that year equalled \$2.40 per share, a deduction from otherwise indicated net of \$5.16, compared with the final available total of \$2.76. Stockholders of Standard Brands viewing 1944 net earnings of \$2.59 may not have realized that a larger amount of \$3.15 per share had been deducted to meet the requirements of EPT, and that under different circumstances the per share figure would have been \$5.74, with the tax done away with, or \$4.16, if it were cut in two.

The glass industry of course can in no way be considered a "war baby", except where containers have been used for military use. While the shortage of tin has served to increase the use of glass containers during war years, the latter have gained a popularity which is likely to hold its own in postwar years, although competition will be keen. On one important factor in this special branch of the industry, the impact of EPT in 1944 was pronounced, as will be noted in studying the figures relating to Hazel Atlas Glass Co. Here a final net per share of \$5.33 would have been translated into \$22.53 had EPT not taken its toll; or if viewed from the aspect of a possible 50% cut in the EPT rate, \$13.93 per share would have been available as a net result.

Mead Johnson & Co., the leading domestic producer of prepared infant foods, is an outstanding example of a peace business importantly contributing to the Treasury revenues to support the war effort through EPT taxes, incidentally revealing to what an extraordinary extent EPT has been able to prove its efficiency in stabilizing corporate earning capacity on a prewar basis as its sponsors intended it to do. Mead Johnson enjoys a remarkably consistent record of earning power (Please turn to page 343)

EPT and 1944 Net Earnings, per Share

	1944 Net	EPT	Net before EPT	Net if EPT rate is halved
Schenley Distillers	7.66	27.14	34.80	21.23
Corn Prod. Refining	2.69	.14	2.83	2.76
Penick & Ford	3.50	4.02	7.52	5.51
General Foods	2.14	1.68	3.82	2.98
Standard Brands	2.59	3.15	5.74	4.16
Stokely-Van Camp	2.87	.55	3.42	3.14
American Can	4.30	1.58	5.88	5.09
Continental Can	2.12	1.72	3.84	2.98
Hazel Atlas Glass	5.33	17.20	22.53	13.93
Owens Illinois Glass	3.06	4.68	7.74	5.40
Amer. Home Prod.	4.73	2.69	7.42	6.08
Mead Johnson	10.26	15.33	25.59	17.92
Twentieth Century-Fox	6.04	12.36	18.40	12.22
Loew's	8.61	3.21	11.82	10.21
Paramount Pictures	3.93	6.02	9.95	6.94
Allied Chemical	8.14	4.20	12.34	10.24
Dow Chemical	6.34	8.11	14.45	10.40
Murphy, G. C.	4.96	16.04	21.00	12.98
Dayton Rubber	3.91	8.10	12.01	7.96
Firestone	7.13	13.40	20.53	13.83

Investment Audit of . . .

Swift International

BY J. C. CLIFFORD

SWIFT INTERNATIONAL (Compania Swift Internacional S.A.C.) operates the South American and Australian business of Swift & Company, the world's biggest packers. Its principal properties are in the Argentine, where they cover about 25,000 acres. It also has large investments in Brazil and Uruguay, in Australia and New Zealand. However, the company does not publish figures showing their relative size, or the earnings derived from them.

While the headquarters office is maintained in Chicago, operations are centered in the Argentine and the company's accounts are all carried in terms of the Argentine pesos, which is now on a paper basis though well backed with gold. This raises the question of the exchange value of the peso, which though far below the old level has been relatively stable in recent years. The present quoted rate of 25c for the "free peso" compares with the official rate of 29.77c and the theoretical parity of the gold peso of \$1.6335. Swift International's dividends, however, are always stated in U. S. dollars, since most of the stock is held in this country.

The capital stock (which constitutes the entire capitalization) has a par value of 34.09 paper pesos. Originally, parity was \$15 gold, the stock having been offered to stockholders of Swift & Company in 1918 in exchange for 15% of their holdings in the American company. The equity of the former subsidiary however appears to have outstripped that

of the parent company since World War I. Swift was split four-for-one in 1929 so the present price would be equivalent to 136 on the 1918 basis, and 15% thereof would be 20½. On the other hand, Swift International is currently selling around 38. It paid dividends of \$2.50 (including a 50c extra) last year while the parent company paid only \$1.90.

Back in 1918 when International was incorporated to take over the plants and business of Swift & Company in South America (Argentine, Uruguay, Paraguay and Brazil) and also in Australia, the assets totalled \$76 million in Argentine gold pesos. In 1923, presumably as a result of the 1921 drop in commodity prices, assets shrank to \$47 million (company only) and there was a modest recovery to \$56 million in 1929. In recent years only, a consolidated balance sheet has been published. Figured in paper pesos, consolidated assets increased steadily from 116 million in 1929 to 190 million in 1939; there was a drop of 25 million in the following year, but by 1944 the figure had jumped to 275 million, reflecting the huge war demands for Argentine beef and mutton.

Sales figures have not been published since 1934 but other income items are available in paper pesos (the figures for 1933-37 are converted from gold to paper pesos on the basis of 1 paper peso equalling 44% of one gold peso). On this basis, operating income recovered from 13,393,220 in 1935 to 19,129,671



Compania Swift Internacional

in 1937, declined several millions in the depression year following, but advanced to 20,841,105 in 1939. In 1942 income was up 50%, and in 1943 gained another 50% to 45,240,690. In 1944, however, earnings shrank to 37,852,938.

This growth of earnings has been checked somewhat by increasing charges for depreciation and amortization. In 1933 this item totaled only 2,053,077 but in 1940 it was 4,052,855, and in 1944 8,078,971. The amount increased substantially in 1944, due to higher depreciation rates for certain plants, and despite the decline in operating income. Income taxes increased from less than 1 million pesos in 1933 to nearly 11,000,000 pesos last year. As a result of the rapid rise in these two items, net income advanced only from 12,636,685 in 1929 to 21,599,873 in 1943 and 17,645,479 in 1944.

On the basis of paper pesos, share earnings have shown a fair rate of growth since 1929 but most of this occurred during the wartime period. In 1929 net per share was 8.42, and remained around this level until 1937, when it jumped to 10.84, and in the year following to 11.45 (after adjustments of net current assets of foreign subsidiaries). In the two following years earnings were larger before adjustment of exchange, but lower after such adjustment; and in the four years 1941-44 earnings averaged around 12.25 pesos (last year 12.05). With the peso worth about 25c in recent years, the company has been earning about \$3 in U. S. currency despite the steady increase in depreciation and taxes.

The company's dividend policy has been liberal, the lowest amount being in 1926-8 when U. S. \$1.20 was paid. During the period 1919-32 payments varied in a range of \$1.20-\$4.00 but since 1933 a basic \$2.00 rate has been maintained, with 50c extras in 1937, 1942 and 1944 (the extra 50c was paid in March last year, but there has been no extra forthcoming thus far in 1945). Last year the company paid out about 85% of its earnings but in 1943 (when the 50c extra was omitted) only 56% was disbursed. On the whole, payments averaged about two-thirds to three-quarters of earnings since 1932.

Despite the substantial decline in the value of the peso as compared with its original value in 1918, Swift International's simple capital structure and conservative financial policies have maintained an extremely sound balance sheet position. There is no funded debt and the current ratio last year was 2.8 to 1. Cash items were almost equivalent to half of all current liabilities, and in some previous years considerably exceeded debts.

In 1944 the company carried a sizeable "bank overdraft" (bank loan) amounting to 21,374,164 pesos, but this was due to the normal policy of financing seasonal operations by borrowing in the countries in which the operating companies are located. Cash and marketable securities amounted to nearly 32,000,000 pesos. Receivables were 39,400,112, after a reserve for doubtful accounts of 5,162,986; and inventories amounted to 117,952,699.

Pertinent Statistical Data

(In Argentine paper pesos*—except where otherwise indicated)

	1939	1940	1941	1942	1943	1944
Oper. Inc. before depr'n (mill. of pesos)	20.841	25.995	29.949	30.867	45.240	37.853
Depr'n and amort. mill. of pesos)	4.031	4.052	4.420	5.687	6.756	8.079
Balance for common (mill. of pesos)	19.253	17.223	16.841	17.704	21.599	17.645
% earned on invested capital**	16.9%	16.1%	24.6%	21.5%	27.4%	18.6%
Earned on common, per share***	\$2.24	\$2.33	\$2.95	\$2.78	\$3.45	\$2.98
Earned on common, % of mkt. price	5.9%	6.1%	7.7%	7.3%	9.1%	7.8%
Dividend rate***	\$2.00	\$2.00	\$2.00	\$2.50	\$2.00	\$2.50
Dividend yield (on current market)	5.2%	5.2%	5.2%	6.6%	5.2%	6.6%
Current asset value, per share	\$103.65	\$87.43	\$101.33	\$115.98	\$132.84	\$125.95
Book value, per share	\$90.82	\$91.53	\$100.71	\$101.91	\$106.42	\$130.01
Net current asset value, per share	\$71.81	\$72.94	\$76.37	\$76.28	\$82.37	\$81.09
Cash asset value, per share	\$25.86	\$32.69	\$20.54	\$14.63	\$15.44	\$21.05
Current Ratio	3.2	6.0	4.1	2.9	2.6	2.8

*—One paper peso has an exchange value of U. S. \$ —.25

**—Before provision for income taxes

***—In U. S. dollars

Inventories declined moderately in 1944 because more ocean shipping was available to transport meat products to Europe. Accounts receivable also decreased, as improved payment terms were obtained from the British Ministry of Food for refrigerated and canned meat purchases under contract.

The company has set aside substantial reserves. In addition to reserves for depreciation and for doubtful receivables, there were the following in 1944:

Inventory price declines.....	5,788,134
Exchange	17,573,971
Restoration of Plant.....	1,749,007
General	10,811,825

Total..... 35,922,937

Capital and Surplus

The 1,500,000 shares now have an aggregate parity value of 51,136,364 pesos. The capital surplus, legal reserves and earned surplus bring the shareholders' equity to a total of 169,910,483. In terms of dollars this would be just about one-quarter as much or approximately \$42,500,000, making book value per share approximately U. S. \$28.50. While this figure may seem low in relation to the current price of 38, it must be noted that the peso is now only one-quarter of its 1918 parity, that assets have been substantially written down, and that there are very liberal reserves.

Swift International has not published a parent company balance sheet for some years, hence it is difficult to guess how much of the current assets are available in the United States. However, a footnote to the 1944 balance sheet indicates that of the net current assets amounting to about 121 million pesos, some 28 million were, at the end of 1944, subject to exchange restrictions on withdrawal of funds, under regulations enforced in the countries where the companies are located. This would seem to indicate that the company has substantial cash resources in the United States.

Swift International's worldwide organization employed 24,000 men and women in 1943. The top management remains in the United States: Honorary Chairman Charles H. Swift (Chairman of Swift & Co.), President Joseph O. Hanson, and Vice-Presidents Luning and Taylor are located in Chicago.

Comparative Balance Sheet Items

	1941	1944	Change
ASSETS			
Cash	8.193	13.735	+ 5.542
Marketable securities	22.613	17.847	- 4.766
Receivables, net	40.021	39.400	- 0.621
Inventories, net	81.173	117.952	+36.779
Other current assets			
TOTAL CURRENT ASSETS	152.000	188.934	+36.934
Plant and equipment		147.567	
Less depreciation		65.435	
Net property	41.410	82.132	+40.722
Other assets	1.753	2.130	+ 0.377
TOTAL ASSETS	195.163	273.196	+78.033
LIABILITIES			
Notes payable	5.992	21.374*	+15.382
Accounts payable and accruals	22.744	32.365	+ 9.621
Reserve for taxes	8.713	13.561	+ 4.848
Other current liabilities			
TOTAL CURRENT LIABILITIES	37.449	67.300	+29.851
Deferred liabilities			
Minority interest	0.045	0.063	+ 0.018
Long term debt			
Reserves	45.745	49.748	+ 4.003
Capital	51.136	51.136	
Surplus	60.788	104.949	+44.161
TOTAL LIABILITIES	195.163	273.196	+78.033
WORKING CAPITAL	114.551	121.634	+ 7.083
Current Ratio	4.1	2.8	- 1.3

*—All figures are in millions of pesos; 1 peso has an exchange value of 25c.

**—Overdrafts.

Only Vice-President Six and Secretary-Treasurer Gillies are located in Buenos Aires. All the six officers are also directors. In order to handle the sale of products in the United States, International Commercial Company, Inc. was organized in December, 1943 under the laws of Delaware, with offices at 231 South La Salle Street, Chicago. Mr. O. R. Kresse, formerly a Vice President of Swift International, was appointed President.

Swift International's products consist principally of chilled and frozen beef, some cured pork, canned meat, dehydrated beef and mutton; and such by-products as hides and skins, beef extract, wool, oleo oil, tallow and fertilizer. The company also operates a cottonseed oil mill and refinery in Sao Paulo, and a produce plant and fruit cannery in Argentina.

Before the war began in Europe, the principal customers for the company's products were distributors on Great Britain and continental Europe, chiefly the former. More than 25% of total British imports of beef, mutton and lamb were normally supplied by the company. Business with continental European countries was much less important by comparison. Exports to the United States consist chiefly of hides, wool and fertilizer.

The war has virtually shut off business with continental European countries and British sales have been made to the Government rather than to former private distributors. The British Government, however, has been taking most of the company's output on long-term contracts. More recently, political considerations apparently have delayed renewal of the latter which expired last September but renewal negotiations are now reported in progress. Meanwhile shipments have continued on a monthly basis at prices and terms similar to former contractual arrangements. Output of the Australian and New Zealand subsidiaries have been bought by the Gov-

ernments of these countries for the Allied Forces and for the British Food Ministry.

1944 operations were handicapped by unusually dry weather both in South America and in portions of Australia. The drought in Argentina, Uruguay and Brazil was lifted early this year, however, when substantial rains improved conditions. The drought in Queensland, New South Wales and Victoria extended over a considerable period and resulted in severe losses of cattle and sheep in certain areas. However, despite these conditions the company has been able to avoid any serious reduction in volume.

Labor problems were encountered in South America last year, and production was interfered with at various times. The management was able to adjust these difficulties, but granting of wage increases resulted in higher operating costs.

The company continued to expand its properties during 1944; a slaughtering plant was purchased in New South Wales and is being modernized. A beef and pork processing plant in the Sao Paulo district of Brazil was acquired to serve as a distributing point for part of the local production in that area. A solvent extraction plant for oil-bearing seeds was constructed in Argentina, as well as a poultry feeding and killing plant. An additional cottonseed oil mill was also completed in Brazil.

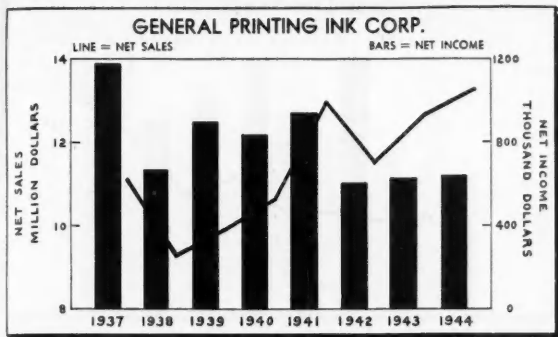
Regarding political conditions in Argentina, the management stated in March, 1944 that "conflicting aims of different groups within the country seem to have complicated the problem, but we hope that a satisfactory settlement will be arrived at in the near future. Meantime, the conditions prevailing in Argentina have not affected the company's operations in that country." In the 1944 report issued March 15th this year, attention was called to the fact that "formal diplomatic relations between Argentina and the United States were suspended during 1944. This situation has not materially affected the operations of the company and we are hopeful that cordial relations will be re-established in the near future."

Relations between the United States and the Argentine Government were greatly improved by the decision to admit Argentina to the San Francisco conference of United Nations. It is true that recent news reports from Buenos Aires have been somewhat disquieting as regards internal political conditions in that country, but it appears unlikely that these have much bearing on the position of Swift International. Cattle raising is the great national industry, and Swift is the principal medium through which beef and other meat products are disposed of. The Government could hardly interfere with Swift without substantial adverse effects on the national economy.

Outright expropriation of the company's properties in the Argentine would seem an extremely unlikely development, since the local government could hardly exercise control over the management or assets in this country, or over the foreign subsidiaries which market a substantial part of the company's products. While it is true that some utility properties owned by American & Foreign Power have been expropriated, that company has appealed to the Supreme Court in Argentina for adequate compensation.

The question of the (Please turn to page 338)

Six Dynamic Low-Priced Stocks



BUSINESS: A leading producer of inks for printers and lithographers in the country. Incorporated in 1929 as a merger of five long established ink manufacturers, the business has since been expanded to operate through nine different divisions, including an important subsidiary in Canada. Diversification of products and distribution is effected by plants located in Chicago, New York, Jersey City, San Francisco, Los Angeles, and a branch in Toronto, Canada. Additionally, a score of service stations are scattered throughout important cities in the United States. Besides making practically all kinds of ink used by printers of every description, the company to a more limited extent manufactures printing machinery and supplies.

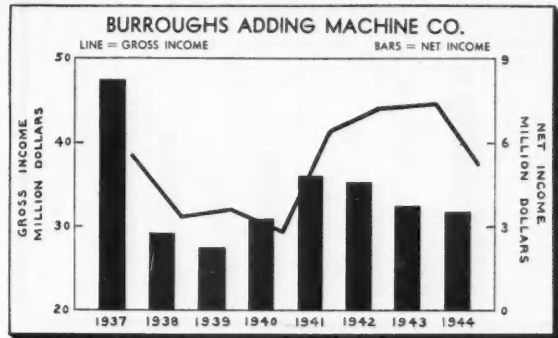
OUTLOOK: Volume in this business is closely related to that of advertising and publishing, and therefore is particularly sensitive to changes in general economic conditions, an exception being the newspaper trade which enjoys relatively greater stability than other forms of publishing. Curiously enough, in spite of paper shortages and industrial preoccupation with Government business, volume of the ink makers has risen somewhat in war years. Unusually bright postwar potentials favor a continued high level of sales, with prospects of wider profits margins as operations revert to normal channels and the tax burden eases. Continuation of fairly stable dividend payments appears likely; these, while conservative, have established an unbroken record for many years past.

COMMENT: The company is in strong financial shape with working capital at a peak of \$4.7 million and cash and Government bonds alone exceeding total current liabilities. Ample cash resources warranted payment of a common dividend in 1932, the only year since 1929 when they were not fully earned. Prior to the common is an issue of 35,000 shares of \$4.50 preferred, providing moderate leverage for the junior issue. Dividend payments on the common have been consistent but variable in years past ranging from 30 cents a share in 1942 to 90 cents in 1937, the current rate being ten cents quarterly.

MARKET ACTION: Recent price—11½ compared with high for the year of 11½ and a high of 72 in 1936. Volatility of the stock normally is above average due to cyclical influences.

COMPARATIVE BALANCE SHEET ITEMS
(\$ millions)

ASSETS	1939	1944	Change
Cash	1.313	1.056	-.257
Marketable securities	—	.563	+.563
Receivables, net	1.587	1.451	-.136
Inventories, net	1.995	2.713	+.718
Other current assets	—	—	—
TOTAL CURRENT ASSETS	4.895	5.783	+.888
Plant and equipment	4.448	5.333	+.885
Less depreciation	2.843	3.388	+.545
Net property	1.605	1.945	+.340
Other assets	.563	.140	-.423
TOTAL ASSETS	7.063	7.868	+.805
LIABILITIES			
Accts. payable & accruals	.602	.592	-.010
Reserve for taxes	.277	.483	+.206
Other current liabilities	—	—	—
TOTAL CURRENT LIABILITIES	.879	1.075	+.196
Deferred liabilities	—	—	—
Reserves	—	—	—
Capital	4.146	4.235	+.089
Surplus	2.038	2.558	+.520
TOTAL LIABILITIES	7.063	7.868	+.805
WORKING CAPITAL	4.016	4.708	+.692
Current Ratio	5.5	5.4	-.1



BUSINESS: Burroughs is the country's fourth-largest maker of office machines, its principal lines consisting of adding, billing, calculating and bookkeeping machines of various types. Lesser lines include cash registers, standard typewriters and a combination adding machine and cash register. Main plant is in Detroit where machines are made; accessories and supplies are made at Plymouth, Michigan. There is also an assembly plant in Ontario, Canada. Over 450 patents cover the various specialties manufactured and additional ones are constantly in process of adjudication to strengthen the company's competitive position. Pre-war foreign business averaged about 30% of total sales; in 1939 such business contributed over 45% of profits.

OUTLOOK: The importance to the war effort of Burroughs standard office equipment largely confined wartime sales to regular output until last year when the company completed its first large contract for Norden bombights. Production of war items continues large although at the end of March, unfilled orders for regular products exceeded \$19 million, equal to over six months of average prewar volume and indicative of heavy replacement demand which may be expected as soon as output can be concentrated to meet it. With a return to normal conditions and elimination of tightly priced Government business, profit margins should widen upon a volume marked for its normal stability. Export prospects particularly are promising.

COMMENT: Exceptionally strong finances, featuring ample cash resources, are characteristic; cash items currently are nearly four times current liabilities and the current ratio is 5.5 to 1. Capitalization is confined to five million shares of no par common. Earnings while relatively small have been consistent and dividends liberal; the unbroken dividend record dates back to 1905. Large deferred demand, both here and abroad, should markedly bolster immediate postwar sales and profits. While this prospect has been partly discounted marketwise—as reflected by a high price-earnings ratio—further enhancement potentials should exist. Dividend yield currently is 4.1%.

MARKET ACTION: Recent price—17 compared with year's high of 17½ and the 1937 peak of 35½. Past volatility has been above average.

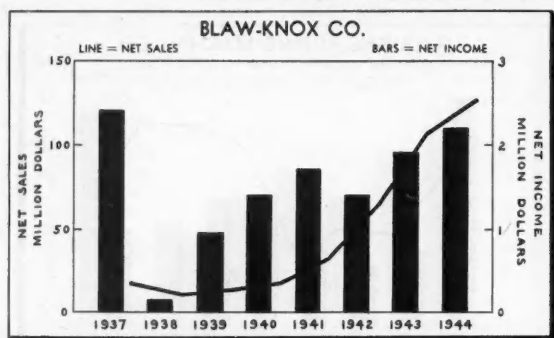
COMPARATIVE BALANCE SHEET ITEMS
(\$ millions)

ASSETS	1939	1944	Change
Cash	5.134	7.311	+.2177
Marketable securities	5.871	14.167	+.8296
Receivables, net	4.307	2.985	-.1322
Inventories, net	11.347	6.629	-.4716
Other current assets	—	—	—
TOTAL CURRENT ASSETS	26.659	31.092	+.4433
Plant and equipment	17.231	17.815	+.084
Less depreciation	8.615	9.840	+.1225
Net property	8.616	7.975	-.0641
Other assets	1.398	4.010	+.2612
TOTAL ASSETS	36.673	43.077	+.6404
LIABILITIES			
Accts. payable & accruals	1.488	1.953	+.465
Reserve for taxes	1.354	2.039	+.685
Other current liabilities	0.110	1.684	+.1574
TOTAL CURRENT LIABILITIES	2.952	5.676	+.2724
Deferred liabilities	2.695	3.017	+.322
Reserves	1.402	1.400	-.0002
Capital	25.000	25.000	—
Surplus	4.624	7.984	+.3360
TOTAL LIABILITIES	36.673	43.077	+.6404
WORKING CAPITAL	23.707	25.416	+.1709
Current Ratio	9.2	5.5	-.37

Thumbnail Stock Appraisal

Thumbnail Stock Appraisal

Six Dynamic Low-Priced Stocks



BUSINESS: A long established designer and manufacturer of many kinds of equipment for road building and public works, of steel mills equipment, automatic sprinklers, radio towers, open steel flooring and special equipment for the chemical industry. From time to time the company has absorbed a number of going concerns in line with its policies of broad diversification, until now ten special divisions concentrate on the major types of manufacturing output. Most of the plants are located in the Pittsburgh area, and one in Columbus, Ohio. In England, an important subsidiary manufactures many of the company's specialties and has been undamaged by war; a plant located in Chauny, France, has been written down to \$1.

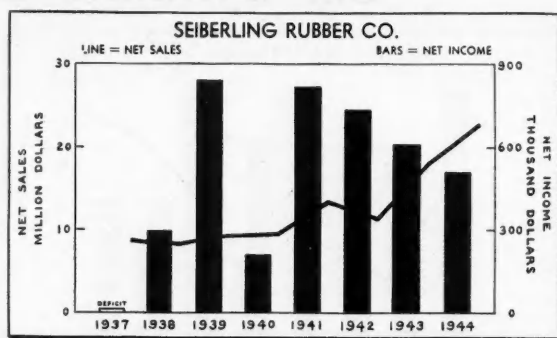
OUTLOOK: While output of special war material has been extensive and the company has operated several ordnance plants for the Government, most of its regular lines have been in heavy demand for military purposes, thus entailing only minor disruption of normal schedules, and minimizing reconversion problems. With the possible exception of equipment for steel mills, most of the items made by Blaw-Knox should enjoy a brisk demand in postwar years both here and abroad. A recent development is a new plant just opened to produce "White Glove" packaged fuel, clean briquettes of compressed anthracite waste mixed with bituminous fine matter. The company anticipates a broad market for this hot and practically smokeless new fuel for stoves and fireplaces.

COMMENT: While net earnings and dividends have been variable, in only four years of the last thirty have stockholders received no distributions. By conservative dividend policies, working capital has been gradually built up to \$10.6 million. Book value of the common stock, the only outstanding form of capitalization, is \$15.21 per share or slightly more than its recent price of 14½, and the price-earnings ratio is about 9 to 1. Based on last year's disbursements of 70c per share, dividend yield is about 5%. First quarter 1945 shipments almost doubled those of the 1944 quarter.

MARKET ACTION: Recent price—14½ compared with 1945 high of 15½ and high of 29½ in 1937. Volatility of the stock has been above average, reflecting the cyclical character of the company's business.

COMPARATIVE BALANCE SHEET ITEMS
(\$ millions)

	1939	1944	Change
ASSETS			
Cash	.964	11.809	+10.845
Marketable securities	—	9.061	+9.061
Receivables, net	2.280	19.495	+17.215
Inventories, net	3.118	29.842	+26.724
Less adv. coll. on accts.	—	cr. 31.274	cr. +31.274
TOTAL CURRENT ASSETS	6.362	38.933	+32.571
Plant and equipment	14.853	16.212	+1.359
Less depreciation	5.244	8.248	+3.004
Net property	9.609	7.964	-1.645
Other assets	2.382	2.031	-0.351
TOTAL ASSETS	18.353	48.928	+30.575
LIABILITIES			
Notes payable	2.500	—	-2.500
Accts. payable & accruals	1.581	10.372	+8.791
Reserve for taxes	.217	16.897	+16.680
Other current liabilities	—	0.979	+0.979
TOTAL CURRENT LIABILITIES	4.298	28.248	+23.950
Deferred liabilities	—	—	—
Reserves	.390	2.349	+1.959
Capital	11.120	11.120	—
Surplus	2.545	7.211	+4.666
TOTAL LIABILITIES	18.353	48.928	+30.575
WORKING CAPITAL	2.064	10.685	+8.621
Current Ratio	1.4	1.3	-0.1



BUSINESS: A relatively smaller factor in the rubber industry, with production of tires and tubes for replacement purposes main feature, although about 10% of revenues is derived from other products such as rubber sales, heels and specialties. Tire sales as standard equipment to automobile manufacturers play only a small part in the company's operations, distribution being made mostly through individual dealers. About 40% of volume consists of truck and bus tires. Prewar capacity of Seiberling was about 3,500 units per day and during war years has been used to the limit in meeting military and civilian demand. Stockholders have been advised recently of a planned \$1 million expansion in facilities.

OUTLOOK: Although the company operated at a deficit for several years in the earlier 1930s, for the last seven years the business has shown a profit and conservative dividends have been paid on the common stock during the past three annual periods. By cautious retention of earnings to build up working capital and by sale of \$1.5 million debentures in 1943, the company's financial position has been measurably improved in recent years, enabling it to handle an expected large deferred demand for replacement tires in early postwar years without undue financial strain. While 1944 sales of \$22.9 million may not be equalled in peace years, domestic volume will be bolstered by affiliates in Canada, England and Brazil.

COMMENT: The common derives considerable leverage from \$1.3 million outstanding 4% debentures and \$1.8 million 5% preferred. Under the impact of EPT, net earnings have trended downward in recent years but still amounted to \$1.34 per share in 1944, establishing a price-earnings ratio of about 9:1. Based upon 1944 dividend of 50 cents per share, the current yield is about 4.2%. In view of a poor prewar record, the stock is highly speculative, but its current price may not yet fully reflect the improved financial position and bright postwar potentials.

MARKET ACTION: Recent price—12, compared with 1945 high of 12½ and a high of 9¼ in 1937. Past fluctuations reflect considerably above average volatility.

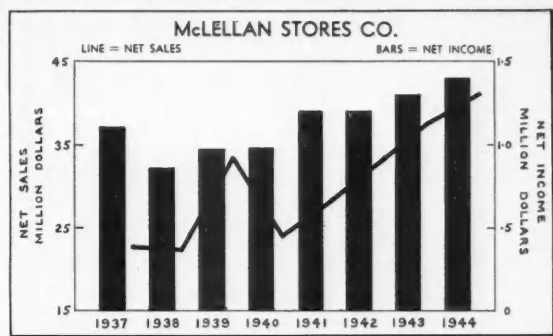
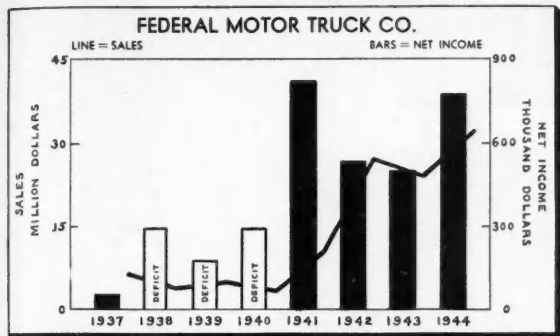
COMPARATIVE BALANCE SHEET ITEMS
(\$ millions)

	1939	1944	Change
ASSETS			
Cash	.525	1.393	+0.868
Marketable securities	—	0.100	+0.100
Receivables, net	1.355	2.641	+1.286
Inventories, net	1.481	2.785	+1.304
Other current assets	—	—	—
TOTAL CURRENT ASSETS	3.361	6.919	+3.558
Plant and equipment	4.537	6.950	+2.413
Less depreciation	2.896	3.814	+918
Net property	1.641	3.136	+1.495
Other assets	.706	1.128	+422
TOTAL ASSETS	5.708	11.183	+5.475
LIABILITIES			
Notes payable	.176	0.100	-.076
Accts. payable & accruals	.818	1.738	+920
Reserve for taxes	.161	.918	+757
TOTAL CURRENT LIABILITIES	1.155	2.756	+1.601
Deferred liabilities	0.003	0.007	+0.004
Long term debt	—	1.300	+1.300
Reserves	0.545	.526	-.019
Capital	2.297	3.167	+870
Surplus	1.708	3.427	+1.719
TOTAL LIABILITIES	5.708	11.183	+5.475
WORKING CAPITAL	2.206	4.163	+1.957
Current Ratio	2.9	2.5	-0.4

Thumbnail Stock Appraisal

Thumbnail Stock Appraisal

Six Dynamic Low-Priced Stocks



BUSINESS: A long established but relatively smaller factor in the motor truck industry. The company manufactures a variety of models ranging in size from $\frac{3}{4}$ tons to 8 tons, practically all output until recently consisting of military trucks during war years. At present, by Government permission, manufacture of ten models for essential civilian use has been commenced; the new trucks are coming off the same assembly lines as the military models, the company thus sustaining its wartime advantage of almost normal manufacturing procedure. Since 1910, Federal has maintained up-to-date facilities in Detroit, its present manufacturing space occupying over 500,000 square feet, and company efforts have concentrated on improvement and production of commercial vehicles in normal years.

OUTLOOK: While war has tremendously expanded volume to nearly \$34 million compared with \$3.4 million in 1940, when a deficit occurred, prewar sales of over \$6 million in several years were profitable. Present unfilled orders of about \$35 million indicate the insistent demand for the company's products and for some years to come, civilian and export demands are likely to exceed prewar dimensions. With practically no reconversion problems and probable relief from EPT in postwar years, the outlook for the company is promising although a drastic decline in volume eventually seems certain with the end of hostilities in the Pacific. The compactness of the company is a favorable factor, enabling it to make fair profits in good years and to carry on through leaner periods.

COMMENT: In spite of heavy taxes and fairly liberal dividend distributions during the past four years, working capital has increased to \$2.87 million compared with \$1.2 million in 1941, thus creating the strongest financial position in the company's history. Capitalization consists of 491,543 shares of common on which 1944 net earnings were \$1.58 per share, with a dividend of 50 cents. With a moderate price-earnings ratio of about 7.5 to 1, this stock appears still fairly moderately priced in view of immediate postwar potentials.

MARKET ACTION: Recent price—11½ compared with 1945 high of 13½ and a top of 11½ in 1937. Cyclical influences normally render the stock highly volatile.

BUSINESS: Operates a chain of 226 retail stores featuring lines of merchandise mainly priced from 5 cents to \$1, and located generally in smaller communities. The business is an outgrowth of an enterprise originally started in North Carolina where headquarters are still maintained. Geographical distribution of the selling units has been gradually broadened to serve markets in 29 states, mostly East of the Mississippi River, with concentration emphasized in North Carolina, Georgia, Texas, Oklahoma, Massachusetts, Illinois, Wisconsin and Michigan. Many of these stores have been modernized or enlarged during recent years to attract an increasing number of rural customers residing in areas tributary to the centers where the stores are located. It is to this class of trade that sales efforts are chiefly directed.

OUTLOOK: Dependence largely upon trade importantly affected by variations in income from crops such as cotton, tobacco and wheat suggests uncertainties of sustained volume, but operating results of the chain for many years past have demonstrated an almost uninterrupted over-all growth and in average sales per store, the latter having increased from \$86,700 in 1936 to a peak of \$181,749 for the last fiscal year. Total sales for 1945 amounted to over \$41 million, compared with \$19,944,000 in 1936. Net earnings, while widely disproportionate to volume gains during this decade, have been remarkably stable and with a consistent though moderate upward trend for the last seven years. Prospective well sustained demand and prices for agricultural products in postwar years pointing to continued high rural purchasing power favors the company's growth potentials.

COMMENT: With working capital of \$6,250,000 and a current ratio of 2.09 to 1, a sound financial position is indicated. Wider profit margins in 1944-45 enabled the company to show net earnings of \$1.70 per common share, a peak for ten years past. Current dividend yield is about 4.5%. The price-earnings ratio of about 11 to 1 appears not excessive in view of the company's good record and fairly well indicated prospects.

MARKET ACTION: Recent price—19, a peak for the year compared with a high of 21½ in 1936. More than average volatility is characteristic of the stock.

COMPARATIVE BALANCE SHEET ITEMS (\$ millions)

ASSETS	1939	1944	Change
Cash	.331	5.536	+5.205
Marketable securities	.009	—	—
Receivables, net	.247	2.142	+1.895
Inventories, net	1.366	3.984	+2.618
Other current assets	—	0.247	+0.247
TOTAL CURRENT ASSETS	1.953	11.909	+9.956
Plant and equipment	1.751	1.580	—0.171
Less depreciation	.839	.812	—0.027
Net property	.912	.768	—0.144
Other assets	.599	.771	+0.172
TOTAL ASSETS	3.464	13.448	+9.984
LIABILITIES			
Accts. payable & accruals	.377	2.791	+2.414
Reserve for taxes	—	1.883	+1.883
Adv. rec. U. S. Gov't.	—	4.359	+4.359
TOTAL CURRENT LIABILITIES	.377	9.033	+8.656
Reserves	.023	—	—
Capital	2.497	2.458	—0.039
Surplus	.567	1.957	+1.390
TOTAL LIABILITIES	3.464	13.448	+9.984
WORKING CAPITAL	1.576	2.876	+1.300
Current Ratio	5.2	1.3	—3.9

COMPARATIVE BALANCE SHEET ITEMS (\$ millions)

ASSETS	1939	1944	Change
Cash	1.362	5.198	+3.836
Marketable securities	—	1.001	+1.001
Receivables, net	.030	.140	+0.110
Inventories, net	4.082	5.641	+1.559
Other current assets	—	—	—
TOTAL CURRENT ASSETS	5.474	11.980	+6.506
Plant and equipment	5.020	3.318	—1.702
Less depreciation	2.045	1.966	—0.079
Net property	2.975	1.352	—1.623
Other assets	.286	2.846	+2.560
TOTAL ASSETS	8.735	16.178	+7.443
LIABILITIES			
Accts. payable & accruals	1.307	2.761	+1.454
Reserve for taxes	.116	2.962*	+2.846
Other current liabilities	—	—	—
TOTAL CURRENT LIABILITIES	1.423	5.723	+4.300
Reserves	.206	.286	+0.080
Capital	3.733	3.718	—0.015
Surplus	3.373	6.451	+3.078
TOTAL LIABILITIES	8.735	16.178	+7.443
WORKING CAPITAL	4.051	6.257	+2.206
Current Ratio	3.9	2.1	—1.8

*Net of 1 mill U. S. Treas. tax notes.

Thumbnail Stock Appraisal

Thumbnail Stock Appraisal

FOR PROFIT AND INCOME

Stocks Versus Bonds

A prime argument for the bull market is that representative stocks yield so much more income return than do high-grade bonds. The fly in the ointment is that, to mix metaphors, you can't eat your cake and have it too. In other words, rising prices progressively reduce the spread between stock yields and bond yields. In April, 1942, 50 representative common stocks yielded an average of 8.19 per cent, against 2.50 per cent for high-grade industrial bonds. The spread in favor of stocks was 5.69 percentage points. Now, with the same stocks yielding about 4.17 per cent, the spread is only 1.65 percentage points. However stocks yielded less than bonds at some time in 1926, 1927, 1928, 1929, 1930, 1932, 1933, 1934, 1935, and 1936. Perhaps it can happen again. Stock yields have been unusually high ever since the autumn of 1937.

Trading Down

To get outstanding dividend yields, the investor has to trade down now or give up former prejudices. You can get good return on Chesapeake & Ohio, Atchison and Louisville & Nashville, but many people still don't like rails, even good ones. You can get a good return on Kennecott Copper, but if longer-term prospects were rosy it wouldn't be so low. Despite the substantial rise it has had this year, you can get an above-average yield on National Distillers, but some folks don't like liquor stocks. This department could name quite a few others. But what most people really want is

high yield, complete safety and large appreciation. Don't we all!

Doggy

Maybe we are wrong, but it seems to us that this market has had a kind of doggy look lately. Almost any stock with a low price seems popular, although common sense should tell people that in this fourth year of a bull market there just can't be many, if any, real bargains left in the low-price class. A low price tag doesn't mean that a stock is necessarily cheap. Some of the dearest purchases made in this market will sooner or later prove to have been in over-valued doggies.

For Instance

Speaking of dogs, we are frankly amazed at the large rise of recent weeks in American Woolen common. It took a war to put this company in the money, and the common is not within a mile of

any of said money, for there are still very large arrears on the preferred. Of course, if the Jap war lasted ten years or so, the arrears might possibly be paid off in cash. Yes, we know a recapitalization is in the works. It has been for a long time. But in a recap you get new pieces of paper for old pieces, and the real value of the new, like the old, depends on earning power—which this company has demonstrated little of in peacetime. Moreover, the preferred stockholders are in the dominant position. Why they should submit to letting the common get generous enough treatment in a recapitalization to justify the present price of the stock is more than this department can see. If they do, we are going to be badly fooled.

Rail Earnings

Railroads virtually certain to earn more this year than last include Atchison, Southern Pacific,

DECLINES SHOWN IN RECENT EARNINGS REPORTS

		Latest Period	Year Ago
Greyhound.....	Mar. 31 Quar.	.54	.72
Gar Wood Industries.....	6 Mos. April 30	.41	.62
Northern Pacific Railroad.....	4 mos. April 30	.78	1.00
Todd Shipyards.....	Year March 31	10.78	18.43
Gruen Watch.....	Year March 31	1.69	2.39
Smith A. O.	April 30 Quar.	3.31	4.08
General Shoe.....	12 mos. April 30	1.57	1.91
Hayes Industries.....	9 mos. April 30	2.02	2.45
Parker Rust-Proof.....	6 mos. March 31	.98	1.10
Southern Pacific Sys.....	4 mos. April 30	3.11	3.88
California Packing.....	Year Feb. 28	3.10	3.76

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JUNE

Union Pacific, Burlington and Nickel Plate. Probables include Northern Pacific, Pere Marquette and Reading. The rails have fooled the majority of "experts" by continuing to outrun the industrial average in the bull market long after V-E Day. Of course, at some point the rail bears are going to be right—but when? This column will dodge that guess. We will venture the observation that for some days now the rails have looked "tired" to our eyes, but then, so do most industrials.

American Tobacco

It's fairly safe to predict that earnings this year will be at least moderately lower than last year, continuing a downtrend that has persisted since 1940 with the exception of a small rebound in 1943. The trouble is a continuing squeeze between higher leaf tobacco costs and ceiling prices on cigarettes. Volume is headed for another new high and there is no reason to expect a nosedive after the war. As sure as shootin', cigarette prices are going to be raised eventually and the excess profits tax is going to come off. When both things happen, American Tobacco will earn a lot more money and may very well get back to its pre-war \$5 dividend rate, against \$3.25 now being paid and reasonably well covered. So here is a longer-term speculation for 25 or more points in an investment currently yielding about 4.2 per cent.

Liquor Outlook

The July "holiday" ought to take the liquor industry pretty much out of the woods so far as

its inventory problem is concerned. Around 54,000,000 gallons of whisky and neutral spirits will be produced in that month or over a third of a pre-war year's full output. It will tend to "stretch out" inventories, although, of course, the supply of aged whisky is still trending down. The larger part will be almost immediately marketable in blends. Chances are that the leading companies again this year will chalk up new records in sales and profits. Looking back over the period since Repeal, Schenley has the outstanding record in over-all results. It continues to be the most aggressive in diversification. If we had to make a long-term bet, this would be it. At present prices, however, no liquor stock looks exactly cheap.

Refundings

This year will probably break all past records in volume of railroad bond refundings. One of the biggest such deals in the works is Northern Pacific's. Another is Southern Pacific. Average interest savings on the refundings will be around 25 per cent yearly. This is all to the good and very important—but a word of caution is in order. Future rail earning power will continue to be affected far more greatly by variations in traffic and operating costs than by any conceivable change in the level of fixed charges. This is merely a matter of relatives, on which investors will do well to keep a clear perspective. If freight traffic fell off enough, some rails would be in the red even if they had no interest charges to meet.

Bohn Aluminum & Brass

Around 58, Bohn Aluminum looks "interesting" on its post-war earnings potentialities. Since it hasn't done much in the market for some time (it sold as high as 56½ as long ago as 1943) it ought to be much less vulnerable to interim reactions than the average stock. Peacetime business is about 40 per cent with the automobile industry, the rest in building, refrigerators, washing machines, vacuum cleaners, etc.; also in aircraft. New lines include magnesium alloys. The aircraft market, however deflated from present levels, should be not less than five times greater than pre-war. Bohn netted over \$5 a share, and paid \$4 dividend, in its best pre-war year on volume less than 30 per cent as large as now. During reconversion shrinkage, it can rely on a high tax cushion. For post-war, assuming tax relief, it would not be surprising if it netted considerably more than last year's \$6.21 a share. Sole capitalization is 352,418 capital shares. All-in-all, a promising situation for the patient speculative-investor.

The Rubbers

Stocks of the rubber manufacturers have had a huge advance from the 1942 low and, for that reason, have not been able to add much more gain to it in recent months. But on every reaction they continue to hold up better than average. And they don't "look high" on either current earnings or probable post-war earnings. It is to be doubted that they have seen their highs for this bull market. This department's conservative choice would be Firestone; speculative choice, Goodrich.

Stepping Out

Over the past couple of years, when it was much lower in price, we commented in these columns on the promising speculative potentials in Spiegel, Inc. It has more than doubled since we first talked about it. Well, at recent high over 17, Spiegel has gone a long way toward that promised land. We are not sure it won't go still higher in time—but we know it is not nearly as cheap as it used to be. So here we part company. This stock is no longer one of this department's little pets.

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		Latest Period	Year Ago
American Airlines.....	4 mos. April 30	1.13	.74
Engineers Pub. Ser. & Subs.....	12 mos. April	3.11	1.78
Western Union Tel. "A".....	4 mos. April 30	2.40	1.97
Brazilian Tract, L. & P.....	Year Dec. 31	3.12	2.72
Eastern Stainless Steel.....	March 31 Quar.	.56	.47
American Zn, Ld. & Smelt.....	12 mos. Mar. 31	.84	.79
Brillo Mfg.....	Mar. 31 Quar.	.38	.18
Hall (W F.) Ptg.....	Year March 31	2.98	2.66
Westinghouse Electric.....	12 mos. March 31	1.90	1.71
Consolidated Coppermines.....	March 31 Quar.	.08	.01
Hecla Mining.....	March 31 Quar.	.21	.13

Opportunities for Income and Appreciation In Bonds and Preferred Stocks

BY JACKSON D. NORWOOD

MARKET TRENDS: The bond market has continued strong, the Dow Jones average for forty bonds closing at 107.75, up .35 in the past two weeks, while the average for second grade rail bonds was up .97. Defaulted rail issues showed a slight decline of .18. Demand continued active for both secondary and reorganization liens. Rock Island 4s of 1934 sold at a new high of 67½ and there was demand for the speculative St. Paul adjustment 5s of 2000 at around 29. In the foreign field, the relatively inactive Prague 7½s of 1952 sold at 81, an advance of nearly 10 points from preceding sale. Uruguay 3½s of 1934 were up six points and Peruvian and Chilean Governments were slightly improved. Municipal tax exempt bonds extended their recoveries in quiet dealings, the Dow Jones yield index of twenty representative state and city issues receding to 1.57% from 1.59% at the end of the preceding week.

BUFFALO, NIAGARA & EASTERN POWER CORPORATION \$1.60 PREFERRED STOCK: This stock was reviewed by us on August 5, 1944 and recommended at 167½. We have received inquiries recently from our subscribers asking what disposition should be made of the stock inasmuch as it has moved up to a high of 23¾. On April 1st, dividend accumulations amounted to \$4.40. If consideration is given to the accrual, it would bring the current market price down to 19¾. We still feel that this issue will receive good treatment under the final reorganization plan and advise retention for the time being. If one desires to accept profits and receive some income from the capital involved, we would suggest Stokely-Van Camp \$1.00 preferred stock selling at 19¾ and callable at 21. Dividend requirements are being well covered on the Stokely preferred and the company's financial position is satisfactory with total current assets of approximately \$15,400,000 as compared with total current liabilities of about \$3,880,000, a current ratio of 4 to 1. The income return is slightly over 5% but appreciation potentials are limited due to the call price.

CRANE COMPANY: Stockholders are being notified of a special meeting on June 20th to vote on a proposal to retire the company's \$5.00 cumulative convertible preferred stock. The retirement of this preferred is to be accomplished with funds obtained through the issuance of another preferred series at a lower dividend rate.

SOCONY VACUUM OIL COMPANY: This company has drawn by lot for redemption on July 1, 1945, for the sinking fund \$3,000,000 principal amount of its 27½% sinking fund debentures due 1955, at par and accrued interest.

REYNOLDS TOBACCO COMPANY: The directors are planning to issue an initial series of 490,000 shares of new preferred stock bearing a dividend rate of

not more than 3¾%, contingent upon approval of stockholders at a meeting to be held on June 26th. The series would be offered to holders of both common and new common B shares for subscription at not less than \$100 a share on the basis of one preferred share for each 20 shares of common or common B stock held. The proceeds will be used to reduce the amount of borrowing from banks for purchase of leaf tobacco.

SHELL UNION OIL CORPORATION: This company is notifying holders of the 15 year 2½% debentures due July 1, 1954, that \$1,000,000 principal amount of these debentures have been drawn by lot for redemption on July 1st, as to principal amount and accrued interest to the redemption date, for account of the sinking fund. Payment will be made on or after July 1st at the office of the Guaranty Trust Company of New York. After the redemption date, interest will cease to accrue on the debentures called for redemption.

GRAHAM PAIGE MOTOR CORPORATION is calling in all of its outstanding 7% preferred stock on June 30th at \$197.75 per share. The call price represents the par value of \$100, plus accrued interest and a \$5.00 premium.

CERTAINTED PRODUCTS CORPORATION: Directors have approved and offered to remaining holders of the corporation's 6% cumulative prior preference stock the right to exchange each share for one share of new 4½% \$100 par value cumulative prior preference stock, 5 shares of common stock and \$4.00 in cash. The offer of exchange will expire at 3 P.M., Eastern War Time, on July 10, 1945.

BURLINGTON MILLS: A special meeting of stockholders has been called June 28th for action on a proposal to simplify the capital structure of the corporation through the creation of 200,000 shares of new preferred stock with a par value of \$100. Directors, making the proposal, recommended initial issuance of 150,000 shares of new preferred in order to retire the 58,602 shares of 5% cumulative preferred stock now outstanding and the \$8,000,000 principal amount of funded debt. Upon completion of this financing the company will have outstanding only the proposed new preferred and the present common stock.

DAVEGA STORES: Directors have called all of the outstanding 5% preferred stock for redemption on July 9, 1945, at the redemption price of \$26.25 per share plus accrued dividends to such date. The preferred dividend for the current quarter, as well as that which would accrue during the first nine days of the next quarter to the redemption date is included in the total amount of \$26.59⅓ per share to be paid upon surrender of the preferred stock for redemption.

Keeping Abreast of Industrial and Company Changes

Personal aircraft ranging from a two-place, low cost model up to a twin-engine junior executive transport will be featured in postwar production by the stinson division of Consolidated Vultee Aircraft Co.

Newest in design of transport comforts is an all-room sleeping car with 22 comfortable rooms, with beds to be raised or lowered into place at the flick of an electric switch. Edward G. Budd Manufacturing Co. will produce this latest travel convenience.

Before the year ends, New York City Omnibus Corporation hopes to expand its fleet of over 1000 buses by acquiring 143 new diesel hydraulic passenger carriers to cost about \$15,000 apiece.

Policies to withdraw from commercial fabrication have led Rohm & Haas Co. of Philadelphia to sell their Southgate, Cal. plant to Shellmar Products Corp. of Mount Vernon, Ohio, the seller will transfer West Coast orders to the buyer.

As a step in its postwar expansion program, Canada Dry Ginger Ale, Inc. has bought the plant and business of a former licensee, the Canada Dry Bottling Co. of Charlotte, N. C. as well as that of a similar company in New Orleans.

Latin-American importers continue to place orders in the U. S. Mt. Vernon Car Manufacturing Co., a division of H. K. Porter, Inc., is building aluminum-steel hopper cars for a Peruvian concern, for which Porter is also making four 65 ton diesel-electric locomotives.

At a price of \$2,845,068, Virginia-Carolina Chemical Co. has purchased the outstanding capital stock and debentures of Phosphate Mining Co., a concern operating in Florida.

Four plywood plants located in Maine and upper New York State have been acquired by Atlas Plywood Corporation. Atlas will now operate 14 plants in all, with an output increase of 12% and a productive capacity equal to nearly four-fifths of the national total.

Indicative of deferred consumer demands so widely discussed, Brooklyn Union Gas Co. reports that since WPB released civilian production of gas heaters on April 28, 5,000 people have made inquiries of the company and it has been obliged to defer acceptance of further orders due to delays in delivery.

Prospects for a substantial increase in business over prewar levels warrant plans to spend \$10 million for reconversion and expansion, reports the president of Briggs Manufacturing Co., as large orders for automobile bodies and parts await the go ahead signal.

Seasonal production in many industries is a great handicap by increasing costs, lowering quality, raising selling expenses and forcing slow inventory turnover which often depreciates before it can be sold.

To correct these difficulties, all branches of the shoe industry including tanners, supply makers, wholesalers and retailers got together recently and unanimously voted to adopt a 52 week a year planned production system, as proposed by the National Shoe Manufacturers' Association.

Reports of peak department store sales are becoming an almost daily occurrence. Latest is that of May Department Stores Co., stating that through April, sales had climbed to over \$45 million compared with \$39 million for the relative period last year.

Zenith Radio Corp. optimistically predicts that postwar export demand will far exceed prewar records, as the urge for news, entertainment and education will be stimulated all over the earth. Wartime scientific advances will be incorporated in its forthcoming models.

Three West Coast operating companies of Dresser Industries, Inc. plan to expand plant facilities and research activities to keep abreast of postwar opportunities arising for the petroleum industry when war demand starts to decline.

No letup in the formation of new corporations can be noted in New York State. 1,295 newcomers received charters in May alone, topping last year's figures by 363 and 585 above 1943 formations.

The four millionth barrel of aviation gasoline has been produced by the Houston plant of Sinclair Refining Corporation, with two million additional barrels of this Jap beater delivered from its Corpus Christi plant.

A strong banking group has underwritten a proposed new preferred stock issue of \$25 million for Commercial Credit Co., to replace its outstanding higher rate 4½% preferred; balance of the proceeds to boost net invested capital of the company to \$80 million.

Best way to create millions of jobs is to go out and get millions of orders, according to George Harger of General Petroleum Corporation, urging that intensive sales efforts should transcend reliance upon a sellers' market during the reconversion period.

A development of war, Pliobond, is produced by Goodyear Rubber Co., and will be distributed by U. S. Plywood Corp. This useful material will bond anything from metals, glass, wood, fabrics, concrete, leather down to paper, and with amazing efficiency.

Completion of radio-telephone service between New York and Ecuador, recently effected by American Telephone & Telegraph Co., now establishes this form of communication with all Latin-American countries.

Postwar diversification plans of Curtiss-Wright Corporation are reported to include production of railroad cars, car seats and bending machines.

Southern plants of Motor Wheel Corporation located at Memphis, Tenn., Kirkwood, Mo., and Jonesboro, Ill., have been sold to National Distillers Products Corporation.

While V-loan credits have proven remarkably useful, some large concerns are reducing their commitments. Sperry Corp., for instance, is replacing its present \$125 million V-credit with a new one for \$75 million at 2½%, a lower rate.

Postwar building may be stimulated by New York Savings banks which under an amendment to the State Banking Act are now allowed to enter the housing field as builders and owners.

If expectations of Buda Co. are realized, their export sales of Diesel engines and railroad equipment will exceed \$12 million annually, which is twice their present sales abroad and almost ten times 1940 exportsales of \$1.5 million.

A grain elevator with capacity of 3½ million bushels in Minneapolis, Minn., has been acquired by Froedert Grain & Malting Co., Inc., from Brooks Elevator Co.

Invasion of Mexican retail markets is under way by Sears Roebuck & Co., who are reported to be building a large modern store in Mexico City.

Merger of Williams Oil-O-Matic Heating Co. with Eureka Vacuum Cleaner Co. bids fair to be a good move. When civilian production starts, Eureka plans to make a new cordless electric iron and a home garbage disposal unit and is negotiating a three year contract with Montgomery Ward to supply all its vacuum cleaners.

Potential growth factors for the conveyor belt industry appear bright and the broadening markets for these transporters in mines and factories may be extended by the use of "moving sidewalks" in stores and subways.

Practical application of picture transmission has already been made by a number of concerns, among others an eastern railroad and a large airline. Weather maps, orders and records are received by radio in their exact original forms.

Inflation Factors

PRESENT POSITION AND OUTLOOK

(Continued from page 331)

trillion! Of this sum the Allies spent \$558 billion (U. S. A., \$281 billion; Russia \$170 billion; Great Britain, \$64 billion; France \$13 billion; South American countries, \$9.3 billion; Canada, \$6.8 billion; Australia, New Zealand and South Africa, \$4.6 billion; Belgium, \$3.6 billion; Poland, \$2 billion; Czechoslovakia, \$1.5 billion; the Netherlands, \$1 billion; Yugoslavia, \$220 million; Greece, \$165 million; and Norway, \$93 million). Axis total was \$443 billion (Germany, \$298 billion; Italy, \$94 billion; and Japan, \$51 billion). In addition, the Axis looted other countries of about \$80.6 billion and spent part of this on the war.

* * *

It may be appropriate to note here that the U. S. Government has at no time issued **Invasion Currency**, and hence has no obligations to redeem such. In every instance, invasion currency was issued by the governments of countries in which our Armies operated and was then exchanged on the spot for American dollars.

* * *

War Bond Sales, of which individuals took 20% during the six drives prior to the present Seventh, provided 75% of all Federal borrowing since May 1, 1941.

* * *

Deposits of all active commercial and savings banks in the U.S.A. increased 73% during the three war years, 1942-4, while capital expanded only 14%. Meanwhile world **Gold** output has declined one-third, and the U. S. A.'s share of the world's gold reserve is down from 68% in 1941 to 59% in the summer of 1944.

* * *

The Bank for International Settlements reports that **Stock Quotations** have advanced most spectacularly in countries afflicted with an inflationary rise in living costs, and least in Anglo-Saxon and neutral countries.

* * *

Military strategists are basing their plans upon a **Long War Against Japan**, they could not prudently do otherwise. Washington announces that **War Contracts** over the next six months will be cancelled at the rate of \$2 billion a month; but that **Government Expenditures** during the next four months will exceed revenue by around \$17 billion, about the same as in the four months ended May 31.

* * *

The present disposition of laid-off workers to take prolonged vacations could be only aggravated if Congress should approve the President's **Unemployment Compensation** proposals. To pay people for not working would swell the money

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre- Pearl Harbor
FEDERAL WAR SPENDING (tf) \$b Cumulative from Mid-1940	June 6 June 6	1.67 284.2	2.08 282.6	1.67 193.4	0.43 14.3
FEDERAL GROSS DEBT—\$b	June 6	241.1	228.1	186.8	55.2
MONEY SUPPLY—\$b Demand Deposits—101 Cities Currency in Circulation	June 6 June 6	40.6 26.5	40.4 26.5	36.9 22.3	24.3 10.7
BANK DEBITS—13-Week Ave. New York City—\$b 100 Other Cities—\$b	June 6 June 6	6.30 8.25	6.24 7.81	5.11 7.25	3.92 5.57
INCOME PAYMENTS—\$b (cd) Salaries & Wages (cd) Interest & Dividends (cd) Farm Marketing Income (ag) Includ'g Govt. Payments (ag)	Apr. Apr. Apr. Apr. Apr.	13.18 9.55 0.81 1.42 1.57	13.69 9.58 1.34 1.39 1.45	12.58 9.14 0.81 1.40 1.48	8.11 5.56 0.55 1.21 1.28
CIVILIAN EMPLOYMENT (cb)m Agricultural Employment (cb) Employees, Manufacturing (lb) Employees, Government (lb) UNEMPLOYMENT (cb) m	Apr. Apr. Apr. Apr. Apr.	51.2 7.8 15.1 6.0 0.8	50.8 7.3 15.4 6.0 0.8	51.3 7.5 16.3 5.9 0.8	50.4 7.7 13.6 4.5 3.4
FACTORY EMPLOYMENT (lb4) Durable Goods Non-Durable Goods FACTORY PAYROLLS (lb4)	Apr. Apr. Apr. Mar.	155 207 114 326	158 212 115 329	169 233 118 341	147 175 123 198
FACTORY HOURS & WAGES (lb) Weekly Hours Hourly Wage (cents) Weekly Wage (\$)	Mar. Mar. Mar.	45.5 104.5 47.51	45.5 104.3 47.43	45.3 100.6 45.64	40.3 78.1 31.79
PRICES—Wholesale (lb2) Retail (cdlb)	June 2 Mar.	106.1 139.6	105.9 139.6	103.9 135.1	92.2 116.1
COST OF LIVING (lb3) Food Clothing Rent	Apr. Apr. Apr. Apr.	127.1 136.6 144.0 108.3	126.8 135.9 143.7 108.3	124.6 134.6 137.1 108.1	110.2 113.1 113.8 107.8
RETAIL TRADE \$b Retail Store Sales (cd) Durable Goods Non-Durable Goods Dep't Store Sales (mrh) Retail Sales Credit, End Mo. (rb2)	Apr. Apr. Apr. Apr. Apr.	5.46 0.81 4.65 0.50 2.21	6.35 0.84 4.51 0.63 2.41	5.49 0.78 4.71 0.48 2.04	4.72 1.14 3.58 0.40 5.46
MANUFACTURERS' New Orders (cd2)—Total Durable Goods Non-Durable Goods Shipments (cd3)—Total Durable Goods Non-Durable Goods	Mar. Mar. Mar. Mar. Mar. Mar.	351 562 215 283 384 213	367 596 220 287 394 214	271 384 198 268 377 193	212 265 178 183 220 155
BUSINESS INVENTORIES, End Mo. Total (cd)—\$b Manufacturers' Wholesalers' Retailers' Dept. Store Stocks (rb)—l	Mar. Mar. Mar. Mar. Mar.	26.6 16.4 3.9 6.3 145	26.6 16.5 3.9 6.2 148	28.0 17.5 4.1 6.4 148	26.7 15.2 4.6 7.2 139

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PRODUCTION AND TRANSPORTATION

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre- Pearl Harbor
BUSINESS ACTIVITY—I—pc (M. W. S.)—I—np	June 2	160.8	161.0	162.7	141.8
	June 2	174.5	174.8	173.4	146.5
INDUSTRIAL PROD. (rb)—I—np	Apr.	231	235	239	174
Mining	Apr.	140	142	140	133
Durable Goods, Mfr.	Apr.	337	345	361	215
Non-Durable Goods, Mfr.	Apr.	174	176	172	141
CARLOADINGS—t—Total	June 2	838	882	811	833
Manufactures & Miscellaneous	June 2	384	404	361	379
Mdse. L. C. L.	June 2	101	109	97	156
Grain	June 2	49	54	37	43
ELEC. POWER Output (K.w.H.)m	June 2	4,204	4,330	4,144	3,269
SOFT COAL, Prod. (st) m	June 2	11.2	11.8	11.7	10.8
Cumulative from Jan. 1	June 2	250	239	271	446
Stocks, End Mo.	Apr.	43.8	45.5	50.5	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	June 2	4.9	4.9	4.5	4.1
Gasoline Stocks	June 2	88.7	89.1	86.8	87.8
Fuel Oil Stocks	June 2	39.0	38.4	51.0	94.1
Heating Oil Stocks	June 2	29.8	29.2	32.6	54.8
LUMBER, Prod. (bd. ft.) m	June 2	484	518	483	632
Stocks, End Mo. bd. ft. b	May	3.2	3.2	3.3	12.6
STEEL INGOT PROD. (st.) m	May	7.48	7.29	7.70	6.96
Cumulative from Jan. 1	May	36.3	28.9	37.9	74.69
ENGINEERING CONSTRUCTION AWARDS (en) \$m	June 7	43.0	21.4	42.9	93.5
Cumulative from Jan. 1	June 7	729	686	800	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	June 2	168	129	170	165
Wood Pulp Stks., End Mo. (st)t	Apr.	7.1	6.4	6.5	14.9
Machine Tools, New Orders—m	Apr.	17.6	47.6	55.2	80.0
Whiskey, Dom. Sales (tax gals.) m	Apr.	4.5	4.6	4.5	8.1
Do., Stks., End Mo.	Apr.	319	325	362	506
Footwear Production (pairs) m	Mar.	43.9	38.9	41.8	34.8

PRESENT POSITION AND OUTLOOK

(Continued from page 332)

supply, hile retarding reconversion, and so add fuel to the forces of **Inflation**.

* * *

Discussions of **Post-War Employment** fail to allow for this and related circumstances. It is mere nonsense to assume that, in order to have full employment after the war, the majority of returning veterans must find jobs without displacing now gainfully employed workers on the home front. Were this possible, total employment would approximate 60 million. In times of peace, our normal labor force would be about 40% of the total population, or around 56 million based upon a total population of 140 million. Allowing for prosperity transient unemployment of about 2 million, a post-war employment figure of 54 million should be recognized as **Full Employment**.

* * *

A person is unemployed only when able and anxious to work, but not at present gainfully employed. Many in the Armed forces or now gainfully employed on the home front will not be able or willing to be gainfully employed after the war. To class such as unemployed could be sophistry. If organized labor and Government planners persist upon framing the **Post-War Federal Budget** around such fallacies the end can only be national bankruptcy.

Ag—Agriculture Dep't. b—Billions cb—Census Bureau. cd—Commerce Dep't. cd2—Commerce Dep't., Jan., 1939—100. cd3—Commerce Dep't., 1939—100. cdlb—Commerce Dep't. (1935-9—100), using Labor Bureau and other data. en—Engineering News-Record. l—Seasonally adjusted Index, 1935-9—100. lb—Labor Bureau. lb2—Labor Bureau, 1926—100. lb3—Labor Bureau, 1935-9—100. lb4—Labor Bureau, 1939—100. lt—Long tons. m—Millions. mpt—At Mills, Publishers and in Transit. mrb—Magazine of Wall Street, using Federal Reserve Board data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, Instalment and Charge accounts. st—Short tons. t—Thousands. tf—Treasury and Reconstruction Finance Corp.

THE MAGAZINE O. WALL STREET COMMON STOCK INDEX

No. of Issues '1925 Close—100)	High	Low	June 2	June 9	(Nov. 14, 1936, Cl.—100)	High	Low	June 2	June 9
290 COMBINED AVERAGE	127.3	105.0	126.7	127.3Q	100 HIGH PRICED STOCKS	85.36	73.59	84.16	84.44
					100 LOW PRICED STOCKS	145.45	112.22	144.13	145.45Y
4 Agricultural Implements	189.5	160.5	186.9	189.5H	6 Investment Trusts	51.6	44.7	51.6H	51.6
10 Aircraft (1927 Cl.—100)	191.9	156.0	178.5	191.9D	3 Liquor (1927 Cl.—100)	539.4	391.0	528.2	521.7
6 Air Lines (1934 Cl.—100)	758.1	559.6	739.4	755.1	8 Machinery	168.7	137.5	168.7H	167.7
5 Amusement	91.4	78.9	89.4	91.4P	2 Mail Order	120.8	96.7	120.8Q	119.2
13 Automobile Accessories	224.0	178.8	221.1	224.0Z	3 Meat Packing	88.2	68.6	83.3	87.4
12 Automobiles	46.2	33.8	44.2	44.0	11 Metals, non-Ferrous	173.3	149.0	168.3	171.2
3 Baking (1926 Cl.—100)	16.6	14.3	16.1	16.5	3 Paper	23.8	18.9	23.8H	23.4
3 Business Machines	263.5	221.3	256.8	258.4	22 Petroleum	167.1	142.5	160.4	158.9
2 Bus Lines (1926 Cl.—100)	160.8	123.5	159.6	156.4	19 Public Utilities	81.1	55.4	81.1H	79.6
4 Chemicals	207.7	189.2	207.7H	203.2	5 Radio (1927 Cl.—100)	31.5	27.5	30.6	30.3
4 Communication	85.5	73.5	85.5J	84.4	7 Railroad Equipment	81.1	68.9	81.1	80.6
13 Construction	52.9	42.3	52.8	52.9H	21 Railroads	33.8	22.8	33.8H	33.6
7 Containers	327.0	276.5	327.0H	322.7	2 Shipbuilding	115.6	96.6	101.3	103.0
8 Copper and Brass	83.2	74.8	80.1	80.2	3 Soft Drinks	443.6	402.9	414.6	413.3
2 Dairy Products	57.8	47.6	57.6	57.8	12 Steel and Iron	96.5	82.8	94.6	95.5
5 Department Stores	54.0	39.8	53.4	54.0R	3 Sugar	66.2	55.2	62.9	66.2R
5 Drugs and Toilet Articles	157.2	117.4	150.9	157.2R	2 Sulphur	212.4	173.5	208.2	204.1
2 Finance Companies	253.9	222.1	251.7	252.8	3 Textiles	81.3	58.5	77.4	81.3H
7 Food Brands	162.7	134.5	162.7Z	160.4	3 Tires and Rubber	38.2	34.0	37.8	37.2
2 Food Stores	67.6	56.1	66.8	66.0	5 Tobacco	76.9	67.5	76.9E	76.5
4 Furniture	98.0	81.6	94.8	94.1	2 Variety Stores	287.4	255.6	287.4H	278.7
3 Gold Mining	117.7	93.8	1061.3	1097.8	21 Unclassified (1944 Cl.—100)	117.7	100.0	113.7	117.7A

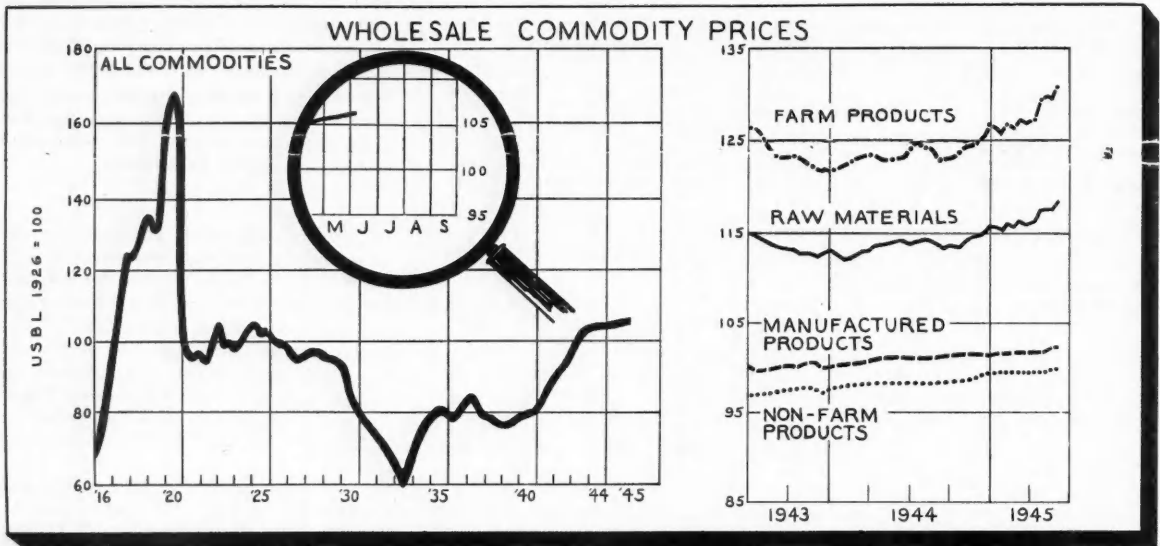
New HIGH since: A—1944; D—1941; E—1940; H—1937; J—1936; P—1931; Q—1930; R—1929. Y—Nov. 14, 1936.

Z—New all-time HIGH.

Trend of Commodities

Though futures chalked up new war-time highs during the past fortnight, spot indexes eased a bit under somewhat freer offerings of cash grain. Newly appointed Secretary of Agriculture, Clinton Anderson, apparently purposes, with the President's blessing, to become a beneficent food czar in action as well as in name. Naturally it will take time to unsmarl and coordinate the previous work of conflicting and overlapping authorities, and miracles should not be expected in view of the acute world food shortage. The new secretary will adhere to the common sense program for running the nation's food front that he outlined when head of the House committee investigating food shortages. He would restore farmers' confidence in the Government's promises through specific, long-range support price guar-

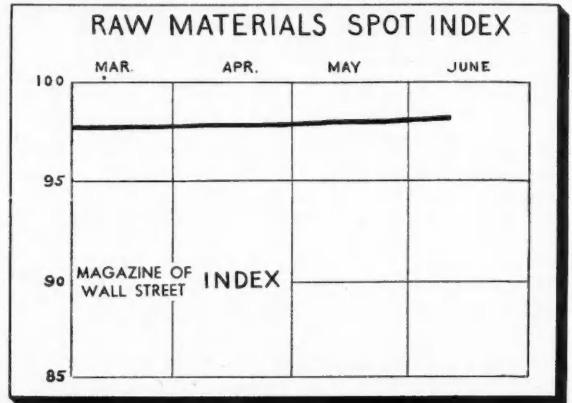
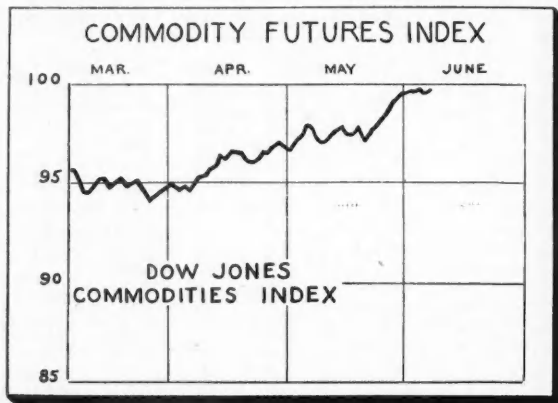
antees announced well in advance of planting time. He says the Army must prove its needs or buy less and change its procurement methods so that purchases will be spread more evenly throughout the country and timed to be largest during seasons of flush production. Chairman Wagner of the Senate Banking Committee states that it probably will be necessary to continue food price controls until 1950 to prevent the inflation which followed world war I. In the trade it is contended that the shortage of beef, particularly quality beef, is due to the fact that the present spread between ceilings on cattle and on feed, originally designed to save feed, makes it unprofitable to transfer cattle from ranges and pastures to feed lots for putting on weight before marketing.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES Spot Market Prices — August 1939, equals 100

	Date	2 Wk.	1 Mo.	3 Mo.	6 Mo.	1-Yr.	Dec. 6
28 Basic Commodities	June 9	183.6	183.8	183.8	183.5	182.9	156.9
11 Import Commodities	June 9	168.9	168.9	169.0	169.0	168.7	157.5
17 Domestic Commodities	June 9	193.9	194.1	194.1	193.5	192.7	156.6

	Date	2 Wk.	1 Mo.	3 Mo.	6 Mo.	1-Yr.	Dec. 6
7 Domestic Agricultural	June 9	227.9	228.6	227.9	225.6	223.2	163.9
12 Foodstuffs	June 9	209.3	209.8	209.4	208.8	207.4	169.2
16 Raw Industrials	June 9	166.3	166.3	166.5	166.4	166.3	148.2



Average 1924-36 equals 100

	1945	1944	1943	1942	1941	1939	1938	1937
High	99.90	98.13	96.55	88.88	84.60	64.67	54.95	82.44
Low	93.90	92.44	88.45	83.61	55.45	46.50	45.03	52.03

14 Raw Materials, 1923-5 Average equals 100

	Aug. 26, 1939	63.0	Dec. 6, 1941	85.0
1945	98.2	97.6	96.0	89.1
1944	96.7	94.9	89.3	86.1
1943	98.2	97.6	96.0	89.1
1942	96.7	94.9	89.3	86.1
1941	98.2	97.6	96.0	89.1
1939	96.7	94.9	89.3	86.1
1938	98.2	97.6	96.0	89.1
1937	96.7	94.9	89.3	86.1

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BOOK REVIEWS

BOOKS THAT WILL BE OF INTEREST TO YOU!

THE NEW PLASTICS

By Herbert R. Simonds and M. H. Bigelow
D. Van Nostrand & Company, Inc. 320 pp. \$4.50

A comprehensive description of wartime advances made in the development of all kinds of plastics, their chemical structure, history and industrial application. While the authors caution against undue public expectancy of spectacular postwar use of plastics, they envisage the industry as one of the most promising in the national roster, revealing the strides made by research in the study of this interesting material, and the names of different companies producing plastics and synthetic rubber. The book is a complete digest of the industry.

A PRICE FOR PEACE

By Antonin Basch
Columbia University Press 209 pp. \$2.50

Interdependence of European countries and the rest of the world to sustain a well functioning global economy is the theme of this interesting study by Dr. Basch. The economic situation in Europe is brought into clear view with emphasis on three periods; pre-war, during German domination, and the postwar years ahead. No European nation, the author concludes, can maintain its standards of living or production levels by any program of self-sufficiency in trade, and the same thing applies to all other countries in the world.

EFFECT OF FEDERAL TAXES ON GROWING ENTERPRISES

By J. Keith Butters and John Lintner
Harvard University 63 pp. \$5.00

A thorough analysis of the impact of Federal Taxation upon the working capital position of growing concerns with relatively small resources. This second in a series of similar studies by the Graduate School of Business Administration centers on the interesting history of the Polaroid Corporation and outlines in detail how delays in payment of postwar refunds could seriously affect its plans for postwar expansion. The book is especially interesting in view of recently announced proposals for Congressional action to overcome such handicaps.

CARTELS CHALLENGE TO A FREE WORLD

By Wendell Berge
Public Affairs Press 266 pp. \$3.25

An authoritative discussion of a timely subject, prepared under the auspices of the American Council on Public Affairs and written by the eminently well qualified head of the Anti-Trust Division of the Department of Justice. The book highlights evidence of the dangerous penetration of Germany in international monopolistic programs, detailing their strangulation of free enterprise in the fields of medicine, patents, optical instruments and other similar necessities, and outlining potentials for their elimination.

INTERNATIONAL WAR DAMAGE CLAIMS

By Rene Wormser
Alexander Publishing Company 411 pp. \$7.50

Written by an experienced international lawyer, this book professionally discusses the various aspects of legitimate claims of individuals and corporations against Governments as a result of war conditions. Pertinent rules of international law are set forth as bearing on the subject, along with methods of presentation, proof and adjudication of claims. The book should prove of value to both the legal profession and to many individual claimants.

MONEY AND THE LAW

New York University School of Law and Economists' National Committee on Monetary Policy 159 pp. \$2.50

Fifteen distinguished scholars have contributed subject matter for this copy of the Proceedings of the Institute on Money and The Law 1945, covering a wide range of interesting subjects. In a broad way the articles consider many legal aspects of proposals originated in Bretton Woods and at Dumbarton Oaks, with further discussion of such timely subjects as the use of military currency in Europe, and power of Government to regulate money. The scope of the material and its authoritative background make for good reading.

INTERNATIONAL TRIBUNALS

By Manley O. Hudson
The Brookings Institution and The Carnegie Endowment for International Peace 287 pp. \$2.50

In this volume the leading American authority on the subject discusses the history of past attempts of international courts to function and the various problems which arose to hamper their juridical progress. From this foundation Judge Hudson submits possible solutions which might lead to creation of a World Court with potentials of more practical and permanent promise. These conclusions are of interest to all citizens awaiting the outcome of the San Francisco Conference, where a new World Tribunal will assume its final form.

TRAVELLER FROM TOKIO

By John Morris
Sheridan House Publishers 253 pp. \$2.75

Four years of residence in Japan, both before and after Pearl Harbor, during which the author was employed by the Japanese Government to teach English in a foremost university, provided him with an excellent background to describe the modern ways and manner of thought in this enemy country. As Ambassador Joseph C. Grew says in a foreword, "A primary axiom in war is to know your enemy," and this Mr. Morris has made possible in a most interesting way.

NOTE—From time to time, in this space, there will appear an advertisement which we hope will be of interest to our fellow Americans. This is number sixty-seven of a series.
SCHENLEY DISTILLERS CORP., NEW YORK.

Let Them Vote!

Louisiana seems to have started something. Some months ago the Louisiana legislature adopted a measure to suspend all so-called "local option" Prohibition elections—"until the boys come home from this war and have their say about it."

Now other states are following suit.

Recently in Colorado an interim subcommittee of the State legislature recommended that all local option elections be postponed for the duration. Minnesota and Indiana are reported to be interested in deferring voting on local option until the boys come home. Delegates to the Nebraska State Convention of the American Legion, in August, adopted a recommendation that the people of the State vote against a proposed Prohibition law in November. This is in support of the policy established by the Legion during its 1942 National convention, recommending that "all action on the question of prohibition be deferred until the end of the war, so that those men and women in the service may have an opportunity to fully discuss, consider and vote on the question when they return." Then came the Bearcat Post of the American Legion of Minnesota, recommending to the legislature of that State, which meets in January, that it enact legislation embodying the Louisiana principle.

Down in Texas, the Lone Star State, an interesting recent experience comes to light: Tarrant County, Texas, voted dry during the first World War, when so many of its voters were absent. This same county a short time ago voted again—and rejected Prohibition—and local observers say that many people voted against the proposal to make the county dry, when servicemen were unable to have their "say."

It seems that we do learn from experience. It seems, too, that the several polls and tests among members of the armed forces in *absentia* have had their effect upon those on the home front whose responsibility it is to deliver back to our boys, when they come home, the way of life they fought to preserve.

MARK MERIT

of SCHENLEY DISTILLERS CORP.

FREE—Send a postcard or letter to Schenley Distillers Corp., 350 Fifth Ave., N. Y. 1, N. Y., and you will receive a booklet containing reprints of earlier articles on various subjects in this series.

Answers? to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities*; one request per month.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope*.
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

Cashed In Profits, Now Waiting For a Lower Market

Since last writing you last December, I decided it would be wise to take advantage of the present Bull Market and closed out all my holdings, and I made a profit of \$3400 on about 16,550 worth of Stocks. I could have done better to have waited longer, and I am satisfied. Now I have cut off my Dividends which averaged me 8% and I may have to wait some time to find a Market as favorable to the buyer as 1942 but am willing to wait for it. Two years if necessary. I now have 20M dollars in Savings Bank waiting for 8% investment returns. I watch the Market daily, and read your Magazine regularly. Some issue I wish you would list about 5 issues, all with a good dividend record, well financed and managed to fit a 20M dollar investment. Maybe we will have a partial recession before another year and that's what I am waiting for. You see, I am 74 years old and Dividends mean the most to me, and with limited Capital, I have to make it count in per cent. If bought right, appreciation will take care of itself.

F. A., Prescott, Ariz.

No one can accurately predict the highest level the market will reach and in view of the uncertainties prevailing, you have exercised prudent judgment in cashing in a substantial profit.

In the April 28th issue of our magazine we presented "Sound Equities With Good Yields." Among the twenty-six securities listed were Pennsylvania R.R., Atchison, Chesapeake & Ohio, Consolidated Edison and American Tel. & Tel. These good quality equities pay a good dividend

yield. With patience you may be able to purchase them at a lower level.

Air Reduction

Please furnish late information on Air Reduction Co., and oblige.

—G. C., Vancouver, B. C.

A net income of \$16,571,512 for 1944 was reported by Air Reduction Co., Inc., which was 13½ per cent lower than the company's 1943 earnings of \$19,192,063. The decreased profit was the result, company officials said, of increased no profit sales to Government agencies of direct war materials and decreased selling prices of some of the company's products to shipyards and steel manufacturers and fabricators where the increase in consumption volumes called for lower prices.

Final net income for the year, after provision for taxes, was \$5,877,176 or \$2.15 per share, as compared with \$6,544,789 or \$2.41 per share in 1943.

Sales of the company in 1944 amounted to \$97,948,780, an increase of 4.07 per cent over 1943 which had represented an all-time high record.

Airco Export Co., a subsidiary of Air Reduction, was founded late in 1944 to develop and consolidate the foreign trade of the parent and subsidiary and asso-

ciated companies. The Airco company will also act as an export agent for other chemical and manufacturing companies. Plans include provision of office spaces and services to customers not having offices in New York.

A complete line of exportable products will be displayed at the show rooms and offices. These will include hospital equipment and supplies, rare gases and medical and dental gases and apparatus, cutting and welding machines, solvents, resins, and other products.

Although only two new plants were built and brought into production by Air Reduction Co., last year, many increases in productive capacity at old plants were effected to adjust production to shifting consuming areas. At some points capacity was reduced and the equipment moved elsewhere.

Preliminary negotiations are under way to purchase some of the 23 plants owned by the Government but operated by Air Reduction Co., officials of the company stated.

As expansion measures last year Air Reduction Co., acquired a plant in Madison, Wisc., manufacturing hospital equipment and a business in New York which manufactured or handled as distributor and exporter articles required for the hospital and surgical field.

Eureka Vacuum Cleaner Company

Will you please give me some information on the proposed merger of Williams Oil-O-Matic Heating Co. into Eureka Vacuum Cleaner Co. and oblige.

G. B. Canton, Ohio

Stock Registration Filed—Merger Agreement: Company has filed a registration statement with the SEC covering 122,500 additional \$5 par common shares for public offering at a price to be filed by amendment.

Net proceeds from sale would be used to purchase no par common stock of Williams Oil-O-

(Please turn to page 342)

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Retail Trade Outlook for the Period Ahead

(Continued from page 315)

things which are made from cotton, woolen or rayon fabrics; from steel, wood, aluminum, leather, rubber, copper and plastics. For civilian use, all of these materials have been severely restricted or otherwise in under-supply for a long time. Yes, the public has been spending a lot of money, and getting much less value for it than normally—and yet the paradoxical fact remains that the average person probably has greater real needs today than ever before for essential goods: especially textile products and every type of "hard goods".

Of course, there will be some localized declines in trade in communities peculiarly vulnerable to the stoppage of war work—such as shipbuilding or aircraft production centers, especially those in medium-small cities—and in communities exceptionally dependent on automotive activity, such as Detroit. Nevertheless, the overall trade outlook appears satisfactory rather than "slumpy". Off-hand, this writer can not think of any important trade items which are likely to be in over-supply during the next six to twelve months: certainly not food, or clothing, or house furnishings or the great variety of things made of metals.

For a number of reasons, the operating profit margins of most merchandising companies have been abnormally favorable in recent years. This is brought out in the accompanying table headed "Statistics on Sales and Profit Margins." Out of 27 representative companies, 24 had higher margins last year than on their largest pre-war sales. The war-time betterment of margins, as will be seen, was most pronounced in the case of department stores and variety chains; moderate, except for a couple of marginal situations in the other groups. Where margins were lower, as for one of the shoe retailers and two of the grocery chains, special circumstances account for it.

Department stores have benefited from the elimination or reduction of various services such as deliveries and returns, and from prompter collections and fewer credit losses. However, note that operating margins of

many of the cash-and-carry variety chains or specialty stores have risen almost as much—in some instances fully as much—as have the department store margins. The reason is simple. Margins are up chiefly because of record-breaking dollar volume. Since much over-head cost is fixed, that means lower overhead per dollar of sales. It also means larger sales per employee—and per dollar of payroll—than ever before.

There will be some shrinkage in margins as more normal conditions return; but it is not to be assumed that ratios will go back to pre-war levels. They certainly will not do so over the next year or so, for, as said before, volume looks favorable and good volume is the main reason for favorable margins. They will hardly do so during the post-war period of catching-up activity—if it is as active as most economists seem to expect.

But operating margins are not the same thing as earning power; and here we come to some more significant findings, in respect to which the writer refers you to the table headed "Statistics on Earnings and Taxes." The same 27 companies are tabulated. Despite huge volume and excellent margins, 22 of them earned less net income per share last year, or in the most recent 12-month fiscal period, than they earned in the best year of the period 1936-1939 on much smaller sales. The reason, of course, is that the major part of the rise in pre-tax earnings has been absorbed by Federal income and excess profits taxes, and especially the latter.

Among the five exceptions only two—Allied Stores and Gimbel—have share earnings significantly larger than in their best pre-war periods. The former status of both of these stocks was quite speculative, with large leverage in the capitalizations. They required more volume than most others to show more than unimpressive equity earnings. One of the others, Kinney, is a marginal situation, with deficits on the common for many years prior to the war. The remaining two—Federated Department Stores and Walgreen—are earning only moderately more than in their best pre-war years.

The last column of the table shows the effective tax rates of these companies, calculated from the latest full-year income ac-

THE ARO EQUIPMENT CORPORATION

BRYAN, OHIO

The Board of Directors has declared a dividend of Twenty-five Cents (25¢) a share on the outstanding Common Stock of this Corporation, payable July 10, 1945 to stockholders of record June 30, 1945.

L. L. HAWK
Treasurer

June 8, 1945

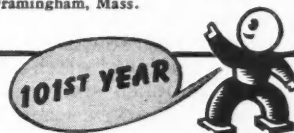
DIVIDEND NOTICES

DEBENTURE: The regular quarterly dividend of \$2.00 per share on the Debenture Stock will be paid August 1st, 1945, to stockholders of record July 20th, 1945.

PRIOR PREFERRED: The regular quarterly dividend of 75¢ per share on the Prior Preferred Stock will be paid August 1st, 1945, to stockholders of record July 20th, 1945.

A. B. Newhall, Treasurer

Dennison Manufacturing Co.
Framingham, Mass.



counts. The figure is the percentage of pre-tax earnings absorbed by Federal income and excess profits taxes. As will be seen, the majority are heavily tax-cushioned against any decline in pre-tax profits. How this works can be illustrated as follows: If the effective tax rate is 75 per cent, then 75 per cent of any shrinkage in pre-tax net will be reflected in lower tax payments, only 25 per cent in lower net income. That is true only so long as pre-tax net stays up within the range subject to excess profits tax—but it is virtually certain to do so throughout the reconversion period in every division of merchandising.

Those with low tax cushions are Montgomery Ward, Woolworth, Jewel Tea, Safeway Stores and Melville Shoe—but cushions will not be needed by most of these. Ward has been hampered relatively more than any large competitor by the war-time shortages in durable goods, and will gain relatively more from here on as

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Retail Trade Outlook

(Continued from page 337)

such goods come back on the market. The special factor in Woolworth has been shrinkage of income derived from dividends of the important British subsidiary. Peace will reverse this. Jewel Tea has been peculiarly vulnerable to war-time operating difficulties and higher costs in its truck-store division: the "grocery stores on wheels". It is headed for both better margins and net income. Melville Shoe has been restricted by shoe-rationing. All of these are, in more or less degree, recovery situations. Safeway has a low tax rate because the pre-war average earnings base was high. Unlike the others, there is not much chance of further rise in pre-tax earnings and some chance of decline. Hence, this is the only case where a thin tax cushion is an adverse investment consideration.

The tax cushions are most substantial in the instances of Marshall Field, Gimbel, Best, Kaufmann Department Stores, Lerner Stores, Murphy, Cunningham Drug Stores, Federated Department Stores and McCrory Stores.

Merchandising stocks have been in the vanguard of the bull market pretty much since its inception over three years ago. On top of large 1943 and 1944 gains, they have had a strong further rise this year. None of the good ones are cheap on current earnings and yield. Many have gone a long way toward adequately discounting post-war earnings possibilities. For these reasons it is concluded that merchandising stocks are more vulnerable to reconversion-period shocks than is merchandising business. Therefore, purchases probably should await a stiff market reaction. On indicated longer-term potentialities, some of the most reasonably priced issues are Marshall Field, Bond Stores, Best, Federated Department Stores, Lerner Stores, Jewel Tea, Montgomery Ward and Woolworth.

Investment Audit of . . . Swift International

(Continued from page 322)

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ment, unlike most other South American countries, has maintained a strong gold reserve. In 1943 that country held the equivalent of \$939,000,000 in gold, nearly as much as the reserves of well-heeled Switzerland. While data on European and world reserves are not accurately obtainable, Argentina's reserve is quite a substantial proportion of that held by foreign countries. It increased sharply in 1943 (from \$354,000,000 to \$939,000,000) presumably because of the strained relations with the United States, which probably resulted in drawing down American credits. Just what will happen to Argentine exchange after the war is difficult to forecast, but obviously the country is in strong financial position (one of the soundest in the world) and there seems little reason to fear any further peso depreciation (the peso in 1944 declined less than $\frac{1}{2}\%$).

Summarizing, Swift International has been an excellent "growth" company and has achieved great stability in operations. In 1921 when there was a big drop in commodity prices it reported a substantial loss, and in 1925 there was a moderate deficit. But since that time, even in 1932 and 1938 when the parent American company was "in the red", Swift International made an excellent showing.

The company appears to be in almost impregnable financial position. Even should the Argentine Government expropriate the plants in that country—about the worst that could happen to the company—there would doubtless still be very substantial assets located in Chicago and in Australia, New Zealand, Uruguay, etc. The stock returns a good yield based on the regular \$2.00 rate and an extra 50c dividend is occasionally forthcoming. The company is not subject to U. S. excess profits taxes but does have to pay fairly substantial taxes on income, from which there may be some relief after the war.

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While the stock has no capital leverage, there are interesting speculative possibilities in the Argentine exchange situation. Many South American countries have a tendency to maintain their currencies at low levels as an excuse for continuing defaults on their bonds held in this country. Argentina has maintained the solvency of its bond issues (with perhaps some minor exceptions) and hence has no such motive for maintaining a low peso rate. If she is to buy automobiles, other consumer goods and industrial equipment from us after the war, she may want to pay in pesos with a higher dollar value. She will want to buy many other luxuries from us, once shipping and other relations are smoothed out and goods become available. Any rise in the exchange rate—even a return to the present "official" rate of 29.77c—should prove advantageous to American stockholders in Swift International. Fundamentally, such a rise should be well supported by underlying conditions, both current and prospective.

I.C.C. Freight Rate Decision

(Continued from page 305)

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Opportunities in Convertible Preferreds

(Continued from page 317)

A sound preferred stock yielding 4.2% and with obvious nearness of conversion status is that of American Chain & Cable Company, although speculative potentials will terminate by September 15, 1946; on that date the right to convert into $3\frac{3}{4}$ shares of common will end. This illustrates the need of ascertaining the duration of conversion agreements, for while some of them have no time limits, most of them expire within a set time, or the conversion terms change at stated intervals. As for American Chain, the current price of about $30\frac{3}{8}$ for the common would establish a value of \$113.88 for $3\frac{3}{4}$ shares, and the preferred is selling at about 116. A rise of only $\frac{3}{4}$ of a point of the common would bring the two issues on a parity basis for conversion, and any further advance during the next 15 months would bolster the current price of the preferred accordingly. An interesting but time-limited speculative potential is thus attached to the preferred, although its present price is not out of line with similar high grade preferred issues enjoying no conversion privilege.

Viewed solely from an investment angle, this stock is the senior obligation of the company, applicable net earnings of which in 1944 amounted to \$57.81 per share of preferred, a sum approximately equalled on the average for the past five years. For the last decade, in fact, the preferred dividend has been amply earned in every year. Back of the \$5,691,900 outstanding preferred are net assets of about \$25 million, including \$13.8 million of net working capital, so that all in all the safety factor of the stock is above average. Sight must not be lost of the company's right to redeem the stock on 30 days notice at 105, or 11 points below its current price. Notwithstanding this circumstance, the convertible preferred sold up to 150 per share in 1937 when the common advanced to a high in that year of 86.

Another example of conversion potentials is shown by Fruehauf Trailer Company $4\frac{1}{2}\%$ convertible preferred stock. This issue is

presently quoted at about 122, yielding a modest 3.6% but its rather high premium is attributable to strength in the price of the common, now selling at $52\frac{7}{8}$. Fruehauf preferred is exchangeable into this equity on a basis of \$44 per share of the latter, thus already showing a profit of 87 $\frac{1}{2}$ points to the senior issue and theoretically raising its price to this extent. While earnings of this company have been variable and much swollen by large war volume, the concern has consistently shown a profit for the last 15 years. In 1944 earnings available for preferred dividends amounted to about \$26 per share, and there has been a wide coverage for the past five years. While the business is sensitive to cyclical changes, postwar potentials appear unusually bright and the company has a peak working capital of over \$12 million with which to operate. As the largest specialist in its field Fruehauf Trailer should be able to show satisfactory results for its stockholders for some time to come although with peace, current huge volume will sharply contract. Deferred civilian demand of large dimensions, however, is likely to sustain volume and earnings at higher than prewar levels. The prospect thus is rather in favor of further price enhancement of the common which in turn would find reflection in the preferred issue.

Space forbids comments on other convertible preferreds listed in the accompanying table but we hope to have made it clear how to weigh their potentials. Some of these listings are well worth further study, and all will be found to have investment attraction in varying degree though based sometimes on somewhat complex conversion factors. Main attraction of privileged issues lies of course in the fact that though being seniors, they enjoy all of the profit possibilities attached to the common. A drawback is that they consequently move with the common and when rising soon become speculative issues.

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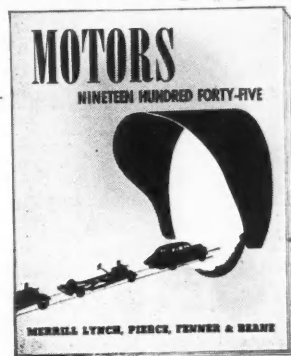
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Advertisement WALL STREET

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Retail Trade Outlook

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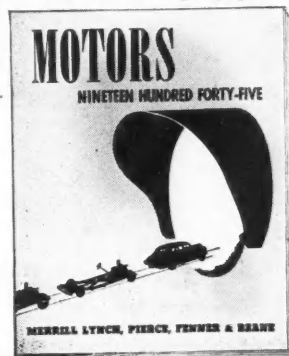
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LET'S GET THE ADMIRAL HIS HORSE!



Official
U. S. Navy Photo

Admiral Halsey has his eye on a fine white horse called Shirayuki.

Some time ago, at a press conference, he expressed the hope that one day soon he could ride it.

The chap now in Shirayuki's saddle is Japan's Emperor—Hirohito.

He is the ruler of as arrogant, treacherous, and vicious a bunch of would-be despots as this earth has ever seen.

The kind of arrogance shown by Tojo—who was going to dictate peace from the White House . . . remember?

Well, it's high time we finished this whole business. High time we got the Emperor off his high horse, and gave Admiral Halsey his ride.

The best way for us at home to have a hand in this clean-up is to support the 7th War Loan.

It's the biggest loan yet. It's two loans in one. Last year, by this time, you had been asked twice to buy extra bonds.

Your personal quota is big—bigger than ever before. So big you may feel you can't afford it.

But we *can* afford it—if American sons, brothers, husbands can cheerfully afford to die.

FIND YOUR QUOTA . . . AND MAKE IT!

IF YOUR AVERAGE WAGE PER MONTH IS:	YOUR PERSONAL WAR BOND QUOTA IS: (CASH VALUE)	MATURITY VALUE OF 7TH WAR LOAN BONDS BOUGHT
\$250	\$187.50	\$250
225-250	150.00	200
210-225	131.25	175
200-210	112.50	150
180-200	93.75	125
140-180	75.00	100
100-140	37.50	50
Under \$100	18.75	25

ALL OUT FOR THE MIGHTY 7th WAR LOAN

THE MAGAZINE OF WALL STREET

90 Broad Street

New York

Opportunities in Convertible Preferreds

(Continued from page 339)

tion, and must be bought with the one or the other qualification closely in mind. Similarly, as a general rule, a conversion privilege of long duration is more desirable than a short one; but nearness of the privilege, price-wise—as f.i. in the case of American Chain & Cable—is also an advantage.

Opportunities for Income and Appreciation in Bonds and Preferred Stocks

(Continued from page 328)

TEXAS POWER & LIGHT COMPANY has called for redemption on July 1st, 1947, all of its 6% gold debenture bonds, series A due 2022, outstanding at that time. Immediate payment, at \$110 and accrued interest from January 1, 1945 to July 1, 1947, will be made at the Chase National Bank, New York City.

PANHANDLE EASTERN PIPELINE:

This company has completed tentative arrangements to call its outstanding 5.60% cumulative preferred stock, subject to approval of common stockholders of an amendment to the certificate of incorporation. The amendment will be acted upon at a special meeting of stockholders to be held July 6th. It would authorize a new class of preferred stock to consist of 150,000 shares of \$100 par value each. Proceeds from the sale of the new preferred stock would be used to redeem the present 5.60% preferred shares. The present preferred stock will be called for redemption immediately after the sale of the new preferred stock.

AMERICAN TELEPHONE & TELEGRAPH CO. has announced that it is preparing to file with the SEC a registration statement covering a possible issue of \$175,000,000 of new 2¾% debentures. The proceeds would be used to redeem at 105 on October 1st, a similar amount of debenture 3¼% bonds due 1961. The Southern Bell Telephone & Telegraph Company, a unit in the Bell System, recently announced that it had filed with the SEC registration statement covering issuance of \$45,000,000 2¾% in 40 year debentures.

NATIONAL DISTILLERS PRODUCTS CORPORATION has called for redemption on June 29, 1945, the entire issue of its 3¼% debentures due 1949. Upon completion of the aforesaid redemption, the company will have liquidated the last of its debentures. Three years ago it issued two series of debentures both maturing in 1949. In October, 1944, the 3½% convertible issue was redeemed and in December the 3¼% sinking fund debentures were redeemed in the sum of \$5,000,000. The funds for these redemptions were raised through a \$15,000,000 bank loan, repayable annually at the rate of \$1,000,000 for the next six years. The balance of the 3¼% bonds now being called for payment at 101½ on June 29th is being funded with a \$4,500,000 bank loan repayable in \$500,000 annual installments during the period 1946-1950, and a final installment of \$2,000,000. Inasmuch as the company's financial position is strong, it should have no difficulty in meeting these obligations.

Where Common Stock Values Have Been Enhanced

(Continued from page 312)

volved a saving of only ¼ of 1% in interest rates on the debentures, their maturity date was extended by 11 years to a full quarter of a century, during which time many things might happen to disturb the money markets. By the same token it was a wise measure to replace the promissory notes with preferred stock although this step entailed an increased amount of prior dividend charges, with only a modest elimination of interest. A balance of perhaps \$12 million will be added to working capital at an annual cost of under 4%, and is likely to prove of material value to holders of the common in the long run.

A clear-cut example of reduced prior charges effected by refunding is shown in the case of Marshall Field & Co. Here an issue of 150,000 shares of 6% preferred was redeemed and replaced by a similar amount of 4¼% preferred, the dividend saving amounting to \$262,500 per year. On 1.9 million outstanding common shares of Marshall Field, this would equal 14 cents a share, nothing spectacular of course but in the long run worth considering.

(Please turn to page 342)

BOTTLED IN BOND 100 PROOF



OLD GRAND-DAD

• Flavor and sparkle and mellowness are the delights of Old Grand-Dad—one of the finest old bourbons that ever caressed your tongue. For that next get-together, count the Head of the Bourbon Family among your most favored guests.

KENTUCKY STRAIGHT BOURBON WHISKEY
100 Proof—Bottled in Bond—4 years old
National Distillers Products Corp., N. Y.

Dividend Notices

THE WESTERN UNION TELEGRAPH CO. Dividend No. 273

A dividend of 50 cents a share on the Class A stock of this company has been declared, payable July 16, 1945, to stockholders of record at the close of business on June 22, 1945.

G. K. HUNTINGTON, Treasurer
June 12, 1945.

UNITED FRUIT COMPANY DIVIDEND NO. 184

A dividend of one dollar per share on the capital stock of this Company has been declared payable July 14, 1945 to stockholders of record at the close of business June 21, 1945.

Lionel W. Udell
Treasurer

Universal Pictures Company, Inc.



DIVIDEND

The Board of Directors has declared a quarterly dividend of 50c per share on the outstanding stock of the Company, payable July 31, 1945 to stockholders of record at the close of business on July 16, 1945.

Where Common Stock Values Have Been Enhanced

(Continued from page 341)

Figured on a basis of savings per share of common, as in the above case, some of the refunding programs might appear to have little significance, although in terms of dollars in which directors and executives must always think, the advantages are substantial. Take a situation like that of Tidewater Associates where annual preferred dividend payments were sliced by \$225,000 a year by replacing 300,000 shares of \$4.50 preferred with a like amount of stock paying only \$3.75 per annum. But Tidewater has outstanding over 6 million shares of common, so that the earnings gain would be only 3 cents for the equity. Undeniably, however, the financing was constructive and added to the company's over-all profits.

Many instances of debt retirement could be cited, of course, and a few of them are listed in an appended table. Refunding of debt at a lower interest rate without reduction of the debt total has also grown increasingly popular. In one way or another, nearly every large industrial concern is alert to the current opportunity to strengthen its earnings potentials by refunding senior issues while the going seems good, and in every case some advantage is accruing to their common stockholders.

Answers to Inquiries

(Continued from page 336)

Matic Heating Corp., under an agreement dated April 25, 1945, providing for merger of that Company into Eureka Vacuum Cleaner. Under the agreement, Eureka Vacuum Cleaner will purchase 245,000 common shares of Williams Oil-O-Matic Heating from W. W. Williams, chairman of latter company, for \$1,386,700 equivalent to \$5.86 per share, and will purchase such other shares of Williams Oil-O-Matic Heating as have been deposited by other stockholders for sale at \$5.16 per share.

Eureka Vacuum Cleaner Company EARNINGS

	1945	1944
9 mos. to April 30	\$191,676	\$215,784
Earned per share	\$0.79	\$0.90

No. of shares..... 241,919 240,919

Note: Company is subject to renegotiation of war contracts.

Dividends: Last \$0.12½ Apr. 1, 1945 paid '45 \$0.25.

Caterpillar Tractor

Please advise me as to postwar prospects of Caterpillar Tractor Co.

G. T., Sandusky, Ohio

Caterpillar Tractor Company will be a substantial beneficiary from indicated heavy postwar demand for its various line of products. May items previously manufactured by other concerns for assembly into the finished Caterpillar Machine will now be produced entirely by the company. A wide range of earth moving equipment will also be manufactured, which should find wide application not only in this country as a result of the coming building boom but also because of the heavy construction needs of war devastated areas. Under the circumstances, it is estimated that postwar volumes may exceed \$100,000,000 annually, compared with a considerably smaller pre-war average. An easier tax situation would permit reflection of this in sizeable earnings improvement.

Dresser Industries Dividend

Will you please inform me as to what dividend Dresser Industries will pay on the recently split up stock?

T. D., Pittsburgh, Pa.

Dresser Industries Inc., directors declared a dividend for the first half of its fiscal year of 60 cents per share, payable June 15 to stockholders of record June 4.

In view of the Dresser two-for-one stock split in March, this represents an increase over the previous dividend rate, and is equivalent to \$2.40 a year on the old basis as compared to \$2.00 paid during the company's previous fiscal year.

On the new basis, the present rate is equivalent to \$1.20 per share per year.

The President of Dresser, has announced that in the future the company plans to consider the declaration of dividends quarterly, with payments being made on the 15th of June, September, December and March.

American Airlines

Are there any new developments that enhance post-war prospects for American Airlines?

A. N., Boston, Mass.

American Airlines establishment of its own air cargo tariff structure apart from and lower than that set up by the Railway Express Agency's air express division is expected to add considerably to the Company's post-war revenue, known as "Air Freight", American has pioneered in a series of special rates. Those on fruits and vegetables average 26.6c per ton mile and newspapers are given a rate averaging 36.5c per ton mile, including collection and delivery service. The corporations announced policy is not to seek to penetrate existing markets utilizing cheaper means of transportation, but to concentrate on the creation and development of new markets and new products for fast air transport. Its engineers are outlining new and modern merchandising methods for selected industries where by economies are assured through elimination of much of the present necessary warehousing throughout the country.

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The Real Story of France

(Continued from page 307)

Shortage of coal also interfered, particularly in the processing of sugar beets. It is expected that next year's output will decline further unless more goods are available to sell to the rural population.

An important factor in slowing down the industrial recovery and the expansion of production has been the uncertainty about the future framework of the national economy as well as about labor relations. The nationalization, which so far affected only the coal-mining industry in the North, is to be extended to public utilities (power), the banks and possibly also to insurance and shipping. Some reorganization of French economy, which before the war was subject to an almost feudalistic control of a group of large industries (exercised through the Bank of France), probably was in the cards, although nationalization means going too far as a merely remedial measure. Incidentally, the reorganization of the Bank of France's administration last Spring has already loosened its grip; a redefining of the function of the Bank of France, which although a central bank nevertheless competed with commercial banks for business, is also coming.

However, the proposed economic reforms which are being held over industry and the banks as a club to force them into cooperation with the Government,

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have had a dampening effect as far as entrepreneurial activity is concerned. Industry, cowed by the accusation of cooperating with the Germans, is waiting for the political turmoil to settle down before committing itself.

As a whole, the expansion of French production has been disappointing. It is estimated that by February 1945 the rate of industrial output was between one-fourth and one-third of the prewar (1938) level. From February to May very little additional progress was made. Moreover, a considerable percentage of the goods produced — ranging from shoes to motor trucks — has been diverted for the reequipping of the new French Army. Thus very few goods indeed have percolated down to the level of the French consumer.

What happened in the meantime to the volume of purchasing power within the country while production was being laboriously raised? First, the velocity of money increased as the strict controls imposed by the Germans were abandoned. More funds went into black markets and prices began to rise. At the same time, budgetary deficit financing kept on creating additional purchasing power. The deficit for 1945 is expected to be in excess of Fr.200 billion.

Wage increases, too, contributed to the pressure for the available supply of goods. At the time of liberation, wage rates were about 60 per cent above the prewar level, after being held at that level by the Vichy Government since 1940. Since agricultural prices advanced from 180% to 200 per cent from prewar levels, labor unquestionably was entitled to some increase in wages. Accordingly, in September 1944 wage rates were raised 50 per cent for ordinary labor and 30 per cent for skilled labor. Another 25 per cent increase was decreed last April, with the result that the present French wage rates are fully three times as high as in 1939. Since the black market flourishes (prices in the black market are three times to eight times as high as before the war), it is feared that the latest rise in wages will soon be overtaken by a further rise in the cost of living.

As a matter of fact, a demand for another increase in wages is already being voiced. The Gov-

ernment seems to be firmly against it, but apparently it is also determined to stop the inflationary spiral. The decision to clean up the currency situation and to impose a capital levy indicates that the pressure of redundant money supplies is to be relieved. At the same time the chance that greater progress in expanding production will be made from now on, is definitely better. With the war over, more transport facilities are available for civilian uses and there is a possibility that coal supplies will exceed 40 million tons this year. France has also accumulated in the past few months enough shipping to begin hauling in larger quantities from her West African colonies some of the badly-needed products such as seedcakes and vegetable oils. By this time most of the 2½ million men who were in Germany, either as prisoners or laborers, have returned. This means more miners and more skilled labor and fewer industrial bottlenecks.

As industrial production expands France will need more imports. To pay for them, sooner or later exports will have to rise. At present a few luxury goods, such as wines, liquors and perfumes, are being exported as well as some phosphates from North Africa. The most serious obstacle to the future expansion of exports is the wide disparity between French internal prices and external price level. While the prices in the countries where France is likely to export rose from 30 to 100 per cent over the prewar level, French prices are from three to eight times higher. Since wages and costs have adjusted themselves pretty much to the price level based on the black market, some change in the official exchange rate will have to be made eventually to bring the French and the outside price levels closer together. In contrast with the official rate of 50 francs to the dollar, black market quotations range from 200 to 500 francs.

France still is struggling to overcome the economic paralysis resulting from the German occupation. There is a good chance that the economic situation will improve faster from now on, particularly if France should be content with moderate economic and social reforms. This too is quite possible, for while she "swung to the Left" during the municipi-

What's Ahead for AIRCRAFT STOCKS?

Have these issues already discounted huge cutbacks in war orders?

AT the end of the Japanese war, aircraft output faces a slash of some 90% from current levels. Release of 1½ million of the 2 million workers in this industry is expected.

Are there factors that will make fair profits possible for aircraft companies on this reduced volume? Have stock prices, now low in relation to current earnings, discounted this development?

An appraisal of the outlook for this important industry and the future of aircraft stocks appears in the Current UNITED Report.

6 ISSUES ANALYZED

Brief analyses, chart studies and timely market comment on the following active issues, are included:

Boeing Airplane	Cons. Vultee
Curtiss-Wright	Doug. Aircraft
Glenn L. Martin	Un'd Aircraft

Every investor interested in this growing industry will find this Report of timely interest.

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pal elections held the last Sunday in April, the political mood of her people was decidedly less radical than at the time of liberation in the Fall of 1944. As the largest political unit on the Continent west of the Stettin-Trieste line, France is likely to play once more an important role in western European politics. To do so, however, she must acquire more solid political and economic foundations than she had as the Third Republic.

Where Tax Reductions Would Mean Sharply Increased Earnings

(Continued from page 319)

even in times of serious depression, and since 1938 net per share has ranged from a low of \$9.03 in that year to a high of \$11.77 in 1943. 1944 net was \$10.26, but only after deductions for EPT taxes amounting to \$15.33 per share. Stripped of EPT, 1944 net would have soared to \$25.59, or to \$17.92 per share had this tax

(Please turn to page 344)

Where Tax Reductions Would Mean Sharply Increased Earnings

(Continued from page 343)

been sliced by 50%, the figures inviting interesting surmises as to potential results when no "ifs" cloud the picture in postwar years.

Some of the "movies" also suggest an immediately favorable reflection in net earnings when the burden of EPT is lifted. Take Twentieth Century-Fox for instance, with EPT in 1944 absorbing \$12.36 from a taxable figure of \$18.40 per share and leaving a relative net of \$6.04 on which to base dividend payments. Whether a concern is likely to have a genuine earning capacity of \$6 or \$18 per share makes a great deal of difference to the stockholder, not to mention the market price of the stock. It will be noted that alteration of EPT should also please stockholders of Paramount Pictures, as reported net earnings of \$3.93 per share would have climbed to a level of \$9.95 in 1944, except for the impact of EPT, and there would have been few complaints had the figure been \$6.94, with the tax halved rather than eliminated.

In scanning the table, so many instances appear where EPT has taken an important fraction of earning capacity (if postwar years disclose the accuracy of this term), that every concern listed really provides interesting study. Tax reductions of course always mean higher net for stockholders, but in some instances more so than in others depending on a concern's tax status and tax brackets. Nor should mere figures for EPT per share (whether big or small) be overemphasized. While dollar amounts stand out strongly in certain groups such as the liquors, motion pictures, textiles, rubbers and merchandising companies, significant percentages may be figured in many cases where smaller sums are involved. To illustrate our point, however, our selection of companies has been mainly concentrated on cases where EPT in terms of payment per share runs unusually high.

Potential benefits from elimination of EPT would seem such as to call—in many instances—for considerably higher market

prices, and no doubt a good many of present-day high price-earnings ratios are predicated at least in part on that premise. There is one question mark, however, and this explains why discounting of these potential benefits has not gone much farther than it did. It is the question: What will be actual postwar earning power? And the corollary question: How much tax relief and when? But regardless of a precise answer which obviously cannot be given at this time, the fact remains that given some tax relief and reasonably well sustained postwar volume, per share earnings should be substantially higher in many instances. In turn, this should lead to liberalization of dividend policies, held conservative during the war period in order to conserve cash and prepare for peace.

In the last analysis, postwar tax relief is closely tied up with general economic conditions—quite apart from the fiscal situation. And the prospect of high-level economic activity has right along been the main driving force behind the bull market. Individual tax situations, however, raise a point of selectivity in making commitments, other things being equal.

Growth Through Stake In Varied Industries

(Continued from page 302)

underscores the necessity for wise diversification: otherwise results may well be disastrous.

According to a recent survey by Dun & Bradstreet, manufacturers of chemicals, electrical machinery, transportation equipment and rubber items plan the greatest percentages of new products in industrial postwar planning. Elsewhere, expansion and diversification plans of mass marketers are particularly interesting and impressive. Here, evidences of the expansion fever are everywhere.

Devoe & Reynolds, old-established paint manufacturer, intends to expand from 67 company-controlled units to 500. Apart from paints, they are to carry an extensive line of home products and may even expand into draperies, unpainted furniture, etc. Postwar lines will be not only paint, but wallpaper, giftware, garden tools, small household appliances, linoleum, dishes and glassware. Sher-

win Williams, another leading paint manufacturer, may experiment with decorative accessories, pictures, mirrors and giftware although the company has not yet arrived at a definite decision.

Most extensive perhaps are postwar marketing plans of the tire & rubber companies. Concerns such as Firestone, Goodrich, Goodyear and Seiberling Rubber will go in strongly for diversification as a basis for rounding out dealers' business and stabilizing sales. Apart from tires, tubes and automotive accessories, future sales items in dealers' showrooms will probably include an extensive line of household appliances including radios, refrigerators, home freezers, washers, oil heaters, vacuum cleaners and small electrical appliances; also glassware, luggage, leather goods, paint and garden supplies. The full list, especially that projected by Firestone, is astonishing. General Tire & Rubber alone among the larger companies is said to follow a policy of minimizing any diversification of merchandise in its 3,000 stores. Apart from tires, tubes and auto accessories, it plans only two special products: (1) Home freezers, because the company considers it a fast selling postwar potential; and (2) A window suitable for air conditioning and heat saving because it is a company-made product.

Incidentally, at least one of the major oil companies, Shell Oil Co., aims to develop super-service stations, adding to petroleum products such things as auto accessories, soft drinks, candy, toys and small electric appliances. Another mass marketer with ambitious postwar plans is Western Auto Supply which plans to expand its outlets from 240 to some 800 and to merchandise not only the customary hard lines but retain and even expand the soft goods lines that were taken up during the war. Montgomery Ward intends to expand its lines to cover new industries such as commercial aviation, television and frozen foods. A similar trend will be followed by Sears Roebuck, with greater emphasis on higher priced merchandise and broadening of its line of farm products.

Discussion of expansion plans of the mass marketers, while not directly related to our main topic of product diversification, is nevertheless of interest because it

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points to marked shifts in merchandising policies as far as manufacturing industries are concerned. And such policies frequently determine profits to a marked degree. With virtually everyone in the business of selling electric appliances, for instance, marketers can afford to "shop around" and once the bloom is off the postwar boom, price cutting by manufacturers may seriously threaten profit margins. Diversification alone therefore is no sure-fire guarantee of success. To make money in the long run takes superior production know-how, good management, aggressive promotional policies and adequate finances. Just as the diversification "tide" during the Twenties produced a good many failures, so will postwar diversification—because of its relatively larger scope and perhaps greater daring in many instances—be productive of a good many disappointments. From the investment standpoint, therefore, selectivity is a distinct virtue.

In the appended table, we have listed a number of companies that enjoy substantial product diversification (or intend to go in for it further). The list includes some that have found the prewar road somewhat rocky but we believe their's is an excellent chance to consolidate and strengthen their position after the war though naturally, in view of the prospective competitive struggle, there can be no absolute assurance of it.


The big and most widely diversified corporations blanketing their respective field and with a stake in others, less closely related to their original business, unquestionably offer the most promising prospects. These include General Motors, Chrysler, General Electric, Westinghouse, Dupont, Allied Chemical, Union Carbide and in fact a good many of the leading chemicals where product diversification has been a standard practice in the past and will continue so in the future. They include Atlas Powder and especially Hercules Powder which managed to develop a highly diversified and profitable chemical business around their original explosives line. Their war business of course will contract sharply, but since margins thereon have been slim and taxes high, the effect earningswise will probably not be too severe and should be largely offset by better profit

margins on regular business and prospective tax relief. Demand potentials in their fields are excellent.

Perhaps strongest has been, and still is, the diversification urge in the automotive parts industry where keen competition made lower costs imperative, while decreasing volume tended to increase unit costs. Borg-Warner has been particularly successful in diversification and now manufactures household appliances, air conditioning, heating and refrigerating equipment, gas and oil burners, roller chains, flexible couplings, clutches, aeronautical equipment and even farm implements, in addition to a wide range of automotive parts. The company as a result has prospered even while many others found the going hard at times, and the common stock represents an excellent speculation on the forthcoming boom in consumer durable goods since most lines stand to benefit from large pent-up demands and export potentials are substantial.

Briggs Manufacturing reestablished its earnings during the Thirties by shifting from motor accessories to other lines. The management late in the Twenties recognized that it could no longer expect to retain fully its former business in automobile bodies and therefore added to their production extensive lines of drawn- and steel-pressed kitchen and plumbing equipment, and also additional automotive parts. While diversification of Briggs is not nearly comparable to that of Borg-Warner, it should pay dividends in the postwar era just as it proved desirable before the war.

Stewart Warner is another company which has escaped from dependence upon the fluctuation of the motor car industry though its initial diversification program was a failure. The company earlier shifted from one automobile accessory to another and finally, in the depression years, successfully expanded into electrical refrigeration and radio. These being highly competitive fields, results were not overly impressive but postwar potentials should benefit from the company's broadening position that will include automotive parts, Alemite lubricants, radios, die casting, steel furniture, hardware and heaters. The latter especially may have important peacetime applications. The common stock is highly spec-

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ulative but has attraction for the immediate postwar.

In fact almost every important motor accessory company has shifted into non-automotive lines, most of them successfully but some with indifferent results. The financial record of those who did not adopt an aggressive diversification policy, such as Hayes Manufacturing, does not make pleasant reading.

Among those which appear "best bets" for the postwar are Bohn Aluminum with a greatly increased range of activity; Clark Equipment whose lines, aside from automotive parts, include drills and tools, gasoline tractors and industrial parts of a diversified character; the roller bearing companies in view of their greatly expanded and diversified outlets for their main product; Motor Wheel which gained considerable diversification through manufacture of oil heating equipment, various pressed steel parts and barrels.

Well diversified but more speculative on basis of past performance is Murray Corporation which in addition to automobile parts manufactures stokers, kitchen sinks, steel cabinets, bathroom ware, gasoline station equipment and parts for farm implements and washing machines. Motor Products, also speculative, has an important stake in the manufacture of deep-freeze units which after the war are expected to come into wide use. Reynolds Spring, a somewhat volatile earner in the past, plans postwar di-

(Please turn to page 346)



CROWN CORK & SEAL COMPANY, INC.

COMMON DIVIDEND

The Board of Directors has this day declared a Dividend of twenty-five cents (\$.25) per share on the Common Stock of Crown Cork & Seal Company, Inc., payable on July 13, 1945, to the stockholders of record at the close of business June 22, 1945. The transfer books will not be closed.

J. J. NAGLE, Secretary

June 17, 1945.

Growth Through Stake In Varied Industries

(Continued from page 345)

versification by entering the farm implement field and introduction of other new products, as yet unspecified. Smith (A. O.) Corp. enjoys considerable diversification. About 60% of revenue are obtained from automotive work, the remainder from manufacture of welded pipe, casings, pumps, welding and electrical equipment and miscellaneous lines such as water heaters and glass-lined storage tanks. While the past record has been unstable, the diversification feature should make for future improvement with good results especially during the early postwar period.

Much talk is heard of diversification intentions in the aircraft industry but the outlook—as far as individual companies are concerned, is still somewhat obscure. Among the few which have announced definite plans is Aviation Corporation which intends to enter the appliance field on a large scale. Though originally an investment company, Aviation Corporation in recent years has been steadily increasing its direct and indirect participation in the manufacture of airplane and aircraft parts. There appears little doubt that it intends to pursue this course in the postwar and current reports mention negotiations to acquire the Crosley Corporation, before the war a marginal but well diversified manufacturer whose output included radios, refrigerators, stokers, washers, ironers, electric ranges and low-priced two cylinder automobiles. The acquisition, if it materializes, could open up interesting possibilities for Aviation Corporation.

In diverse other fields, there are a number of candidates with above average merit due to their diversified positions:

Nash-Kelvinator, one of the

more important independent automobile manufacturers and one of the largest makers of electric refrigeration equipment. Further diversification is obtained through the manufacture of air conditioning apparatus and various household products such as gas and electric ranges and heating equipment. The range of the company's products covers a goodly part of the more outstanding "backlog" industries and future benefits therefrom should shape up accordingly.

We have already discussed the postwar preparations of Continental Can, with their decided trend to diversification and rounding out of existing production. The company has also developed a widely decentralized organization, in the interest of efficiency, which should enable it to serve its numerous client industries promptly and adequately. Extensive plant modernization and expansion in recent years should bolster the company's longer range earnings prospects and assure further growth.

Pittsburgh Plate Glass, thanks to its success in developing new products and in widening the use of established lines, should enjoy further long-term growth in sales and profits. The company is the largest domestic maker of plate glass and among the three leading makers of window glass but in spite of its dominant position in these fields, has long been alive to the merits of diversification. Thus it developed a successful paint, laquer, varnish and brush division and through its Columbias Chemical division has become a large producer of various basic chemicals. It has a half interest in Pittsburgh Corning Corp., manufacturer of glass building blocks, and in Southern Alkali Co., a chemical producer operating in Texas. The chemical division is rapidly assuming a more important role.

American Home Products has enormously expanded its scope in the pharmaceutical, nutritional and vitamin fields which provide about 50% of profits. It also has extensive lines of proprietary drugs, household specialties, etc. Expansion has been accomplished through acquisition of companies with established lines; 21 concerns have been purchased since the end of 1940. Indications are that the diversification and expansion moves have now been con-

cluded and the company henceforth will concentrate on fullest exploitation of the new potentials. It should be productive of marked future growth in sales and earnings.

A promising situation is presented by Philco Corp., well entrenched in radio, refrigeration, air conditioning, electronics and batteries, a well diversified line with notable postwar potentialities. Celanese Corporation is prominent in rayon, chemicals and plastics; this diversification should offer excellent protection against the normal cyclical fluctuations characteristic of the textile industry.

A typical example of expansion through acquisition of related concerns is Dresser Industries. Where it had just one plant, some years ago, in Bradford, Pa., there are now a dozen fast-growing companies, all in or closely related to the oil and gas equipment field, and plants scattered across the country hold promise of lower selling costs and a strong competitive position. Expansion and diversification impart the company extremely favorable secular growth prospects, and the common stock and a good measure of longer term attraction.

There exist of course a good many other companies where diversification, though perhaps less important, may lead to marked postwar gain in stature. Diversification trends are particularly marked in the machinery field, though usually holding close to related lines. Arms manufacturers such as Colt and Remington Arms per force depend, in normal times, on products outside of their principal line to sustain income. Hence Colt, for instance, even before the war had gone into subsidiary lines such as moulded plastics, dishwashing machines and electric equipment. Such diversification will stand it in good stead when regular line demand, that is arms, etc., faces the inevitable drastic shrinkage with the return to peace.

In the railroad equipment field, too, there has developed—even before the war, a marked trend toward diversification to tide equipment makers over the often long and severe cyclical "valleys." For a time after the war, due to enormous backlog of deferred demand for rail equipment, this trend may be somewhat obscured

(Please turn to page 348)

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Cities Service \$6 pf.	7 ³ / ₄
Niag. Hudson \$5 pf.	7 ³ / ₄
United Corp. \$3 pf.	5 ³ / ₄
Col. Gas & Elec. \$6 pf.	13 ¹ / ₈
M.K.T. 1st 4's—1990	5
Amer. Roll. Mill \$4 ¹ / ₂ pf.	5
Niag. Hudson common	48%

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The Balance of 1945 Holds Excellent Profit Opportunities

It is clear that volatile and dynamic phases of this recovery market are in the making . . . reflecting a broad reshuffling of security values in the accelerating transition from war to peace.

Substantial short term profits will be available in selected securities that will abruptly begin to discount volume production of civilian goods, the redemption of tax credits and other hypodermics. There will also be many opportunities for investment appreciation.

Precautions are necessary, too, in order to avoid companies beset by reconversion delays and difficulties . . . especially those where volume may shrink close to the break-even point.

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As I See It!

(Continued from page 297)

begins at a line just north of Coblenz to St. Vith and includes all of the left bank of the Rhine above this line, with a large bridgehead on the right bank fanning out from Coblenz. It also embraces most of Baden and part of Wuerttemberg extending to Lindau to link with the prospective French zone in Austria. This gives the vital industrial Saar area to France—but she is to get only part of the Saar coal desperately needed next winter though there evidently is the intention to give her access to a large amount of Ruhr coal now under British control. Coal, in short, is likely to play a vital role in future Anglo-French relations. For the time being, at least, it is bound to tie France to Britain just as effectively as any treaty would.

This is because France needs coal badly to make up her own deficit now abnormally great because of low production in French coal mines.

And coal is the key to French rehabilitation. It is a vital question, for there is great discontent in France and rehabilitation has been extremely slow. It turns on food and coal—especially the latter—far more than, for instance, on foreign political prestige. If the coal shortage persists through the winter, it will prove a severe test for the ability of any French Government to maintain order, or to maintain itself.

De Gaulle had this in mind when he lashed out at Britain regarding the Syrian-Lebanon affair. He was evidently seeking a bargaining weapon on this all-important domestic matter. Therefore, in calling for a Five-Power Conference on the entire Near East situation, he was raising a very disturbing issue which he felt neither the United States nor Britain would like to go into at this time. While de Gaulle has had a tendency to play the communists against the democracies on internal affairs, he is leaning Right of center, so that bringing Russia into the situation was purely an attempt to secure a weapon with which to chastise Britain.

Every move and counter-move made is related regardless of the direction it takes. What the final outcome will be regarding this

meeting is still not evident, for Russia is continuing the strongest kind of pressure on Persia and Turkey in pursuit of very definite plans in this theater. As can be seen, this matter is far from settled.

The same is true of the Polish issue and administration of Eastern Europe and Germany. These are all matters which undoubtedly will be thoroughly discussed with the hope of settlement at the projected Big Three Conference to take place sometime in July—after the British elections—as I pointed out in a previous editorial was likely to be the case.

It is evident that many of the issues Russia raises are for the purpose of gaining time and maintaining a constant bargaining position—highly detrimental to the conduct of affairs and which do not gain good will for Russia—nor fear of her for that matter. On the contrary, it can only have the tendency to unite the nations against her. The will to peace among the peoples of the world is so strong that I doubt they will permit a new Frankenstein monster to arise.

It is well to remember, however, that the chaos and disorganization in Europe is enormous, so that the prospects for preventing disintegration this winter will call for the greatest kind of conciliatory effort, and that this in itself produces the opportunistic issues which in turn brings the determination to prevent injustice and harmful decisions that are bound to create unfortunate delays.

However, matters have been moving ahead as well as can be expected under the circumstances of this kind as evidenced by the progress we have been making at San Francisco. That task is almost finished. With all its short-

comings, the Conference will produce a better basis for building a much sounder foundation than the world has ever known—and because of our determination to see this through, I believe that more good will be accomplished than many believe possible at this time.

Growth Through Stake In Varied Industries

(Continued from page 346)

but no doubt will reassert itself with renewed force when demand conditions return to normal and diversification once more becomes not only desirable but necessary to sustain earnings. Pullman, expecting to be shorn of its sleeping car business, only recently branched out into oil industry engineering through acquisition of the Kellogg Company. American Car & Foundry has expanded into motor bus manufacture. American Brake Shoe has acquired National Bearing Metals. Symington-Gould has embraced the manufacture of special alloy castings for industries outside of the rail equipment field.

There is no question that in appraising company prospects—especially over the longer term, diversification of products constitutes a valuable differential advantage with its inherent promise of greater stability of sales and income, and more assured growth. However, this must not be taken for granted. It is a case where efficient management, production and merchandising know-how, and adequate financial resources loom large as indispensable ingredients for success. Where they are not present, gain and growth through diversification is not assured.

This holds particularly true in the postwar era when the urge to diversify will be almost universal. It is an era that no doubt will produce its crop of failures but it should also be productive of a number of outstanding successes. Companies already diversified, even if past success has been modest but which are otherwise sound and progressive, should have an edge over newcomers. The postwar era therefore should witness further entrenchment of a good many companies which were late starters in the Thirties and therefore have been unable to develop their full potentials due to interruption by the war.

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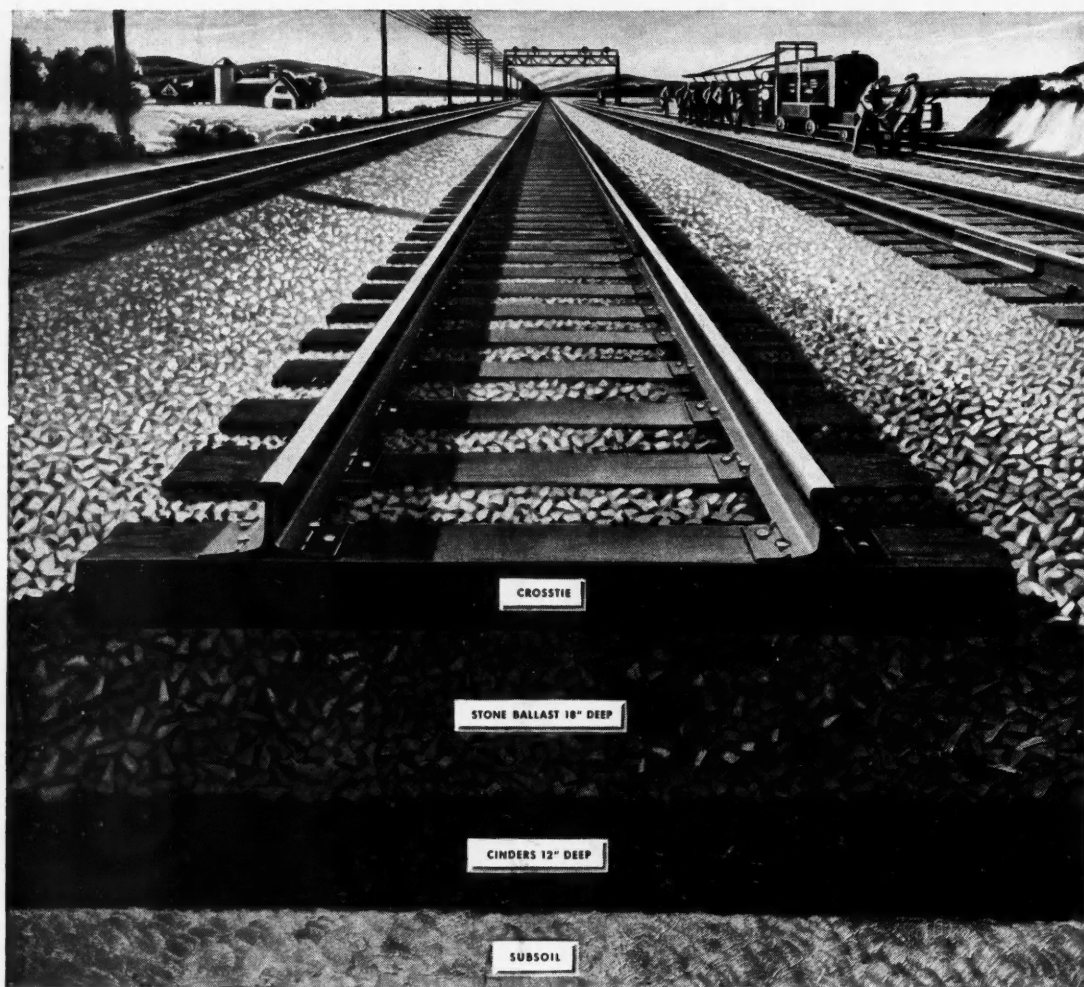
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Groundwork

Millions will be needed for "Deferred Maintenance"

TODAY'S mighty war loads are riding on foundations like that pictured . . . "highways" into which the railroads have put more than 4 billion dollars for improvements since the last war.

But wear and tear on roadway, bridges, locomotives, cars and equipment have been terrific. And material and labor for needed maintenance are not obtainable now beyond the minimum necessary for safe, continued operation. As a result, much work that should be done has had to be deferred.



Money from current revenue should be saved to pay for the needed repairs and replacements when material and labor are available. But the tax law forbids. If money for needed repairs cannot be spent as it is earned it is considered "profit" and

practically taxed away. But it isn't profit. It is the lifeblood of the railroads.

To tax this money away, simply because it cannot be spent now due to war conditions, threatens the backbone of American transportation.

Congressional amendment of the tax law to permit this money to be put aside for replacements would mean strong postwar railroads and thousands of jobs for returning fighting men.

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